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# **China**

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14 SEPTEMBER 1987

## CHINA

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## ZHANG WENJIN DISCUSSES SINO-JAPANESE RELATIONS

Beijing GUOJI WENTI YANJIU [INTERNATIONAL STUDIES] in Chinese No 3, 13 Jul 87  
pp 1-3

[Article by Zhang Wenjin [4545 2429 2516]: "Japan Should Observe Bilateral Agreements and Cherish Sino-Japanese Friendship"]

[Excerpts] China and Japan are neighbors separated by a strip of water whose friendship dates back to more than 2,000 years. In the past century, however, there have been some unfortunate setbacks in bilateral relations because of Japan's militaristic invasion of China, particularly after 1937 when the Japanese staged the "Luguoqiao Incident" and unleashed an all-out war of aggression against China, thereby inflicting a profound disaster on the Chinese people. After the PRC was founded, non-governmental contacts were developed through the efforts of people and organizations of goodwill in both countries. In 1972, normal Sino-Japanese diplomatic relations were finally restored. This year is the 50th anniversary of the "Luguoqiao Incident" as well as the 15th anniversary of the resumption of Sino-Japanese diplomatic ties. Reflecting on the past in the light of the present, one cannot but feel a mixture of emotions.

During its war of aggression against China, the Japanese invading army occupied half of China's territory and committed all manner of war crimes on Chinese soil. More than 18 million Chinese were killed or injured and material and property losses were so huge as to be incalculable.

The Pacific war unleashed by Japanese militarism also brought massive suffering to the Japanese people.

Now, the war has been over for more than 40 years. Still neither the Chinese nor the Japanese people can forget the numerous atrocities committed by Japanese militarism or the many blood debts it owed.

After the PRC was founded in 1949, the Chinese government and people magnanimously let bygones be bygones and consistently made the resumption and development of friendly relations with Japan one of its foreign policy priorities. This shows that the Chinese people sincerely cherish the traditional friendship between the two nations going back 2,000 years. Only the pro-U.S. and anti-Chinese policies of a few Japanese leaders at the time

stood in the way of the normalization of Sino-Japanese relations. But the Japanese people were eager to establish ties with the Chinese people. Some people of insight within the Japanese political circle also wanted to pursue peaceful coexistence and friendly cooperation with China. As for the Japanese economic community, it is even more keen to develop mutually beneficial bilateral trade. Thus people of insight in both China and Japan joined forces in "private diplomacy" and managed to broaden friendly exchanges in all fields in the absence of formal official ties.

The establishment and development of good neighborly relations between China and Japan was the righteous demand and sincere desire of the Chinese and Japanese peoples and could not be stopped by any force.

After the 26th General Assembly of the United Nations restored China's legal seat in 1971 and President Nixon of the United States visited China in early 1972, a cabinet headed by Tanaka came into power in Japan in July 1972. It expressed its "full understanding" of the three principles (namely, the PRC was the only legal Chinese government, Taiwan was an inseparable part of the PRC territorially, and the "Japanese-Taiwan Treaty" was illegal and null and void and should be scrapped) put forward by China for the normalization of relations and declared it would step up efforts to bring about the establishment of diplomatic relations. In September, Prime Minister Tanaka visited China and signed the Sino-Japanese Joint Statement establishing formal ties with China, thus opening a new chapter in the annals of Sino-Japanese relations. Since then it has been possible for bilateral relations to develop comprehensively.

On the political front, the two nations concluded the "Sino-Japanese Treaty of Peace and Friendship," marking a new beginning in the development of good neighborly relations between them.

Economically, bilateral trade has shot up, increasing tenfold between 1972 and 1981 to burst through the \$10 billion mark.

Traditional friendly contacts, cultural exchange, and cooperation in technology and other areas have also grown. An agreement on nuclear energy cooperation has been signed and scores of sister provinces and municipalities have been declared.

The development of Sino-Japanese friendship is the result of the combined efforts of the Chinese and Japanese governments and peoples. This friendship should be highly treasured. We are disturbed, however, that in recent years a few individuals in Japan have been trying endlessly to justify their past militaristic aggression and overturn the correct verdicts of war criminals, so much so that they have even resorted to revising textbooks and worshipping shrines.

Recently there have also been moves afoot in Japan to manufacture "two Chinas" or "one China, one Taiwan." For instance, a Japanese court agreed to hear the "Kokaryo case" brought by Taiwan in the name of the "Republic of China" and even ruled to turn over the Kokaryo to the Taiwanese authorities. In another instance, the Japanese government sent a special plane to take the sailors of



the Korean ship, the "Ch'ongchin Ho," to Taiwan, escorted by senior Japanese officials. These are serious incidents directly violating the letter and spirit of the Sino-Japanese Joint Statement, the Sino-Japanese Treaty of Peace and Friendship, and other bilateral accords.

In economic relations, there is an imbalance in bilateral trade, with China running up excessively large trade deficits. Japan has been slow to invest in China and shown a lack of interest in technology transfer.

Moreover, Japanese military spending has recently passed the 1 percent of gross-national-product ceiling and the government has announced that it would defend the so-called sea passage within 1,000 nautical miles of its territory, indicating that a force still exists in Japan for the restoration of militarism. Not only does this worry China and Japan's other neighbors, but it also troubles people of vision and the public at large in Japan.

Still, times have changed. The few Japanese who want to revive militarism and go back to the old way will not only be opposed by the bulk of the Japanese people but will also be thwarted by existing international conditions. The Chinese people are watching their moves closely. They believe that issues affecting Sino-Japanese relations should be dealt with correctly and properly so that the friendly relations between the two countries would continue to grow. If the problems remain, they are bound to impede Sino-Japanese friendship and may even lead to serious consequences.

The two top concerns and main trends in the world today are peace and development. As the two major influential powers in Asia and the Pacific region, China and Japan not only shoulder the heavy burden of peace and stability but also contribute significantly to regional peace and stability. Nowadays the Asian Pacific area is becoming increasingly important in the world economy and the international strategic setup, with intensifying superpower competition. In addition, a few trouble spots and other potential unstable elements remain in this region. Nevertheless, provided China and Japan live in harmony and pursue friendly cooperation, peace in Asia and the Pacific is guaranteed.

As far as development issues are concerned, the economic relationship between China and Japan is one of mutual need and supplementation. Japan is an economic world power. China is a developing socialist nation with abundant resources and a huge population. The two countries are in different stages of development with vastly different economic structures and development priorities. But they each have their own strengths and are uniquely positioned to carry out friendly cooperation on a basis of equality and mutual benefit. The prospects for such cooperation are very bright. What has happened since China and Japan resumed diplomatic ties makes it clear that the development of bilateral economic relations and trade has been mutually beneficial. It must be pointed out that both economic relations and trade must be on a basis of equality and mutual benefit. It would be a big mistake to use economic intercourse and trade to one's exclusive advantage and imagine that others are dependent on oneself and become arrogant simply because of one's little economic superiority. To do so is not only ludicrous but will

also be detrimental to the development of trade and economic relations between the two nations as well as their friendship.

Because of their own special characteristics, Japan and China stand to benefit if they remain on friendly terms and stand to lose if they fall out. This is true in history, under present international circumstances, in terms of the world position as well as in terms of their own gains and losses. This is why both governments regard Sino-Japanese friendship a basic national policy after the restoration of Sino-Japanese relations and have made the perpetuation of the friendship for all generations to come the ultimate objective of bilateral relations. This complies with popular wishes as well as the trend of the times.

"Experience, if not forgotten, is a guide for the future." We should all learn from the history of the past half century, handle historical issues correctly, and deal with the problems in bilateral relations properly. It is hoped that Japan will not once again create difficulties for good Sino-Japanese relations or do anything that may hurt the feelings of the Chinese people. Both China and Japan must observe the Joint Statement and the Sino-Japanese Treaty of Peace and Friendship, cherish the two nations' hard-won friendship, which has come about only after years of nurturing, and work to consolidate and perpetuate it. If we do that, the Chinese and Japanese peoples will be friends for all generations to come.

12581

CSO: 4005/914

## SOVIET-MALAYSIAN COMMUNIQUE URGES CAMBODIAN SETTLEMENT

OW060506 Beijing XINHUA in English 0040 GMT 6 Aug 87

[Text] Moscow, August 5 (XINHUA)--Malaysia and the Soviet Union agreed that the Kampuchean issue should be settled through political means, a Soviet-Malaysian joint communique said today.

The communique, published by the official Soviet news agency TASS at the end of Malaysian Prime Minister Mahathir Bin Mohamed's eight-day official visit to the Soviet Union, said the two countries share the view that "it is urgently required to resolve the Kampuchean problem through political means by way of talks."

The two sides stressed the need to search for ways to resolve the Kampuchean issue "in the interests of all sides concerned," the communique said.

Mohamed, who came to Moscow on July 29 for his first official visit to the Soviet Union since he became Malaysia's prime minister in 1981, said at a dinner in the Kremlin on July 30 that the occupation of Kampuchea by a foreign power has breached an important principle of international relations, creating a dangerous precedent.

Soviet First Deputy Premier Vsevolod Murakhovskiy replied that the Soviet Union and Malaysia disagree on the source and essence of the conflict in Kampuchea.

The Soviet Union does not seem to stop its support for Vietnamese armed occupation of Kampuchea and refuses to press Vietnam to withdraw its troops from there.

Malaysia, a member of the five-nation Southeast Asian nations known as ASEAN, has repeatedly called for an immediate and unconditional withdrawal of the Vietnamese troops from Kampuchea for a political solution to the Kampuchean conflict.

Touching on Soviet-Malaysian relations, the communique said the two countries expressed satisfaction with the positive development of bilateral relations and voice their desire for broader cooperation in various spheres.

During Mohamed's visit to Moscow, the two countries signed several minor accords on sea transportation, on avoiding double taxation and on cooperation between the two countries' chambers of commerce and industries.

The Soviet Union is the major buyer of Malaysia's natural rubber and palm oil.

On nuclear disarmament, the two countries favored continued Soviet-U.S. talks on nuclear disarmament and called for an end to chemical weapons.

The communique said that the Soviet Union and Malaysia "stand for the cessation of any nuclear tests...banning chemical weapons, the prevention of the spread of the arms race in outer space and the development of international cooperation in using outer space for peaceful purposes."

/9716

CSO: 4000/126

## SHIJIE ZHISHI ASSESSES CAMBODIAN SITUATION

HK171410 Beijing SHIJIE ZHISHI in Chinese No 15, 1 Aug 87 pp 8-9

[Article by Lao Fu (0525 1133): "Several Questions About the Cambodian Situation"--passages within slantlines published in boldface]

[Text] /The reason that the Cambodian question has not yet been solved is because Vietnam has stuck to its policy of military aggression against Cambodia. Under these circumstances, the Cambodian people can only choose to continue their armed struggle against the Vietnamese aggressors. Recently, there have been numerous discussions on the possibility of finding a "political solution" to the Cambodian question. This article will discuss some major questions concerning the Cambodian situation. It is hoped that the views given in this article will help readers to know more about the actual situation in Cambodia./

1. The Guiding Role of Armed Struggle

Recently, there have been more discussions on the possibility of finding a political solution to the Cambodian question among the international community. It seems that during these discussions, most people have paid less attention to the armed struggle which is still going on in Cambodia.

The majority of people taking part in the discussions to find a political solution to the Cambodian question have been sympathetic with, and friendly toward, the Cambodian people, and have made great efforts to try to find a final solution to the Cambodian question. However, the "political solution" put forward by the Vietnamese authorities is quite different from the "political solution" put forward by other people. Since the 6th National Congress of the Vietnamese Communist Party, the Vietnamese authorities have been trying to deceive international public opinion and create a falsely flexible and harmonious atmosphere over the Cambodian question. The specific intention of the Vietnamese authorities can mainly be divided into the following two aspects: First, the Vietnamese authorities have stressed that the complete withdrawal of Vietnamese troops from Cambodia must be based on the precondition that certain personages must be excluded from the future Cambodian Government. The purpose of the Vietnamese authorities' stressing this point is to confuse the people's minds, and keep people involved in endless disputes over certain issues; second, the Vietnamese

authorities has tried to sap the morale of the anti-Vietnamese resistance forces in Cambodia and dampen the anti-Vietnamese emotion among the Cambodian people. Recently, the Vietnam-based puppet regime in Phnom Penh fabricated false news, such as that hundreds of thousands of anti-Vietnamese resistance force soldiers in Cambodia had "surrendered" to the puppet regime in Phnom Penh, and that the anti-Vietnamese resistance force soldiers in Cambodia "were deeply moved by the policies" of the Vietnam-backed puppet regime in Phnom Penh. This shows that the aim of the Vietnamese authorities and its puppet regime in Phnom Penh in putting forward the so-called "political settlement" and "national reconciliation," is to force the Cambodian resistance forces to surrender their weapons and become obedient subjects to the puppet regime in Phnom Penh.

The Coalition Government of Democratic Kampuchea, headed by Prince Norodom Sihanouk, has seen through these tricks played by the Vietnamese aggressors. That the "Vietnamese aggressors have only been able to understand the language of armed struggle" is a famous remark made by Prince Norodom Sihanouk. It is based on the fact that the three patriotic armed forces under the Coalition Government of Democratic Kampuchea have always held their guns with a firm grip, and have stuck to their armed struggles against the Vietnamese aggressors. Even during the 9th dry season, while trying to find a reasonable political solution to the Cambodian question, the Cambodian resistance forces continued to prosecute their guerrilla war against the Vietnamese blockade and suppression. At present, the three anti-Vietnamese resistance forces have a total of more than 100,000 military personnel, one-third of which are operating in the Cambodian hinterland. The anti-Vietnamese resistance forces in Cambodia have not only firmly established themselves in the hinterland but have also greatly expanded their troops. According to the policy of carrying out small-scale and scattered military activities, the anti-Vietnamese Cambodian resistance forces have attacked the Vietnamese troops and Cambodian puppet regime troops in the cities, towns, and villages; have mobilized the masses; have disintegrated the enemy troops; and have established anti-Vietnamese power organs at the grass-roots level. The development of the anti-Vietnamese struggle in Cambodia has fully proved that, only by strengthening unity and carrying out military cooperation will the three patriotic forces under the Coalition Government of Democratic Kampuchea, be able to strengthen the Cambodian people's confidence in achieving the final victory of the anti-Vietnamese struggle, arouse the sympathy of people the world over, receive help from the international community, lay more obstacles in front of the Vietnamese aggressors, and create more favorable conditions for themselves so as to eventually realize a fair and reasonable political settlement of the Cambodian question.

## 2. Where Are the Obstacles to a Political Settlement to the Cambodian Question?

The 9-year-old aggressive war against Cambodia launched by Vietnam has caused enormous damages to the Cambodian people, the Vietnamese people, and to the people of other countries in the Asia-Pacific Region. Of course, the Cambodian people have suffered the most in this war. In March of last year, Prince Norodom Sihanouk announced the eight-point proposal by the Coalition

Government of Democratic Kampuchea on reaching a political settlement of the Cambodian question. The eight-point proposal announced by Prince Norodom Sihanouk represented the sincere wishes of the Cambodian people. China, the ASEAN countries, and all other peace-loving countries and peoples in the world have given their warm support to the eight-point proposal put forward by the Coalition Government of Democratic Kampuchea, and have hoped that the Vietnamese authorities will positively respond to the proposal. However, facts over the past year have shown that the Vietnamese authorities have obstinately stuck to their policy of aggression against Cambodia and have been unwilling to accept this reasonable and generous peace proposal put forward by the Coalition Government of Democratic Kampuchea. This is the fundamental reason why the Cambodian question has not yet been solved to date.

The Vietnamese authorities has been very cunning. On the one hand, they have refused to consider the eight-point proposal, and on the other hand, they have repeatedly expressed their willingness to find a "political solution" to the Cambodian question. At the beginning of this year, the Vietnamese authorities played some diplomatic tricks in order to make the international community believe its sincerity in finding a "political solution" to the Cambodian question. However, recent developments in the Cambodian situation have greatly disappointed the international community. This is because facts have shown that Vietnam has not changed its stand on the following two major questions: One, the complete withdrawal of Vietnamese troops from Cambodia; and two, the pattern of the future Cambodian Government. To date, Vietnam still insists that the complete withdrawal of Vietnamese troops from Cambodia must be based on the precondition that certain personages must be excluded from the future Cambodian government. Just as Vietnam carried out armed invasion of Cambodia 9 years ago, now Vietnam again takes the internal affairs of Cambodia as the excuse for resorting to force. From this, we can see that Vietnam's stand on the Cambodian question is absurd in terms of legal principle, and ridiculous in terms of common sense. Over the past 9 years, the main purpose of the Vietnamese aggressors in Cambodia has been to wipe out the anti-Vietnamese resistance forces in Cambodia. However, the Vietnamese aggressors have not yet realized their goal. If Vietnam's precondition to solving the Cambodian question was accepted and certain personages who have been leading the most powerful anti-Vietnamese resistance force in Cambodia were excluded from the future Cambodian Government, Vietnam would doubtlessly gain the "greatest advantage" in the world! However, it will be impossible for Vietnam to gain this "greatest advantage" simply because it will be impossible for the Cambodian people and all the forces of justice in the world to allow the Vietnamese aggressors to wantonly interfere in the Cambodian internal affairs. Moreover, the Vietnamese authorities have also demanded that all the forces in Cambodia should "be reconciled" with one another before the complete "withdrawal" of the Vietnamese troops from Cambodia officially begins, and that the Heng Samrin regime should be treated as the principal force in the entire reconciliation process. Obviously, this demand by the Vietnamese authorities is illegal, unreasonable, and impossible to realize.

### 3. The Dignity of Cambodia and Vietnamese Face

When discussing the question of finding a political solution to the Cambodian question, we have come across the question of saving so-called Vietnamese face. It is believed that if the Vietnamese authorities really have sincerity in solving the Cambodian question, then after the Vietnamese authorities promise to withdraw all their troops from Cambodia, and actually implements the promise, the parties concerned will certainly take into consideration the just interests of Vietnam. As a matter of fact, the Coalition Government of Democratic Kampuchea has already stated its generous attitude in its eight-point proposal. However, to take into consideration the just interests of Vietnam does not mean to completely yield to the demands raised by Vietnam. If we tolerated the Vietnamese aggression of Cambodia, we would actually encourage aggression and encourage the aggressors to wilfully violate the United Nations Charter and trample on the norms governing international relations. And if so, the intuitive knowledge of mankind would therefore be blasphemed and a bad precedent of confusing right and wrong in international political life would thus be created.

The armed aggression against Cambodia carried out by Vietnam has changed the international position and image of Vietnam. So, if the Vietnamese authorities had real sincerity in solving the Cambodian question, they should boldly acknowledge their mistake and withdraw all troops from Cambodia. This will certainly not make Vietnam lose face, but on the contrary, will help Vietnam to save face, restore friendship with other countries, and restore itself to the international community. This will also be beneficial to both the Cambodian and Vietnamese peoples.

However, the Vietnamese authorities have not been thinking in this way. The so-called Vietnamese face is actually national egotism based on territorial expansion and is, in reality, based on trampling on the national dignity, independence, and sovereignty of Cambodia. Under such circumstances, the first thing the international community thinks about is, of course, the national dignity, independence, and sovereignty of Cambodia. To support the Cambodian people's anti-Vietnamese struggle, which is aimed at safeguarding the national dignity, independence, and sovereignty of Cambodia, is to support justice and generally acknowledged truth, and is therefore a matter of principle. Therefore, when considering a political solution to the Cambodian question, people will certainly show more concern for the dignity and interests of the victim of the Cambodian war.

### 4. To Unite in Carrying out the Struggle of Resistance Against Vietnam Conforms with the Ultimate Cambodian National Interests

All the people who are concerned about the Cambodian liberation cause have expressed their concern over the problems which recently emerged inside the Coalition Government of Democratic Kampuchea. This concern represents the sense of responsibility, the sense of justice, and the true feelings of the friends of Cambodia. Therefore, the Cambodians have also expressed their complete understanding of this concern.



Everybody knows that relations among the three parties within the Coalition Government of Democratic Kampuchea are far from perfect. However, it is the common patriotic spirit that has united them together. The unity among the three parties within the Coalition Government of Kampuchea over the past 5 years has proved that it is the unity that has given strength to the Coalition Government of Democratic Kampuchea, and has enabled the Coalition Government of Democratic Kampuchea to win one victory after another. Although problems do exist within the Coalition Government of Democratic Kampuchea, association and unity are still the main trend and are still the demands of the ultimate Cambodian national interests. Today, Prince Norodom Sihanouk is still President of Democratic Kampuchea and is still carrying out his patriotic anti-Vietnamese activities. Recently, Prince Sihanouk said that the civilians and troops in his faction must continue to stay in the Coalition Government of Democratic Kampuchea to carry out the anti-Vietnamese struggle by closely cooperating with the civilians and troops of both the Son Sann Faction and the Khieu Samphan Faction. This fact has shown that the Coalition Government of Democratic Kampuchea is still playing its role. People generally hope that the unity and cooperation among the three patriotic forces within the Coalition Government of Democratic Kampuchea will certainly be further strengthened in the long-term struggle against their common enemy.

/9716

CSO: 4005/951

## AFGHAN GUERRILLAS REJECT REGIME OFFERS

OW111527 Beijing XINHUA in English 1512 GMT 11 Aug 87

[Text] Islamabad, August 11 (XINHUA)--The Afghan guerrillas commanders have rejected the Kabul regime's proposals of "national reconciliation" and formation of a coalition government, according to resistance sources here today.

Instead, they pledged not to lay down their arms until the unconditional pullout of the Soviet occupation troops and the formation of an Islamic government in Afghanistan.

The resistance's stance was stated in a resolution adopted at a recent conference attended by 1,200 prominent guerrilla commanders in a place in Afghanistan's Ghor Province, about 300 kilometers west of Kabul.

The conference decided to establish a supreme holy-war council to coordinate war activities of the resistance forces and evolve an outline for the future political system of Afghanistan.

It also decided to set up a country-wide communication system under which they will exchange information about the enemy and strengthen cooperation in their war strategies.

The resolution stressed that there should be a harmony between the resistance forces' war activities and the political decisions of the leaders living outside Afghanistan so as to achieve the goal of the total withdrawal of the Soviet troops from Afghanistan as soon as possible.

The resolution called for the payment of compensation by the Soviet invaders for the loss of life and property they have inflicted on the Afghan people.

It warned that the Soviet troops would be attacked if they tried to withdraw without paying compensation.

Observers here noted that this was the first ever big conference of Afghan guerrilla commanders to have been held inside Afghanistan and it would contribute to the unity of the resistance forces and their armed struggle against Soviet occupation.

/9716

CSO: 4000/126

OPPOSITION TO BUREAUCRATISM URGED

Beijing LIAOWANG [OUTLOOK] in Chinese No 28, 13 Jul 87 p 4

[Article by Li Shangzhi [2621 1424 1807]: "Resolutely Oppose All Shades of Bureaucratism"]

[Text] This year's 1 July is the 66th anniversary of the founding of the CPC. Republishing on this day Comrade Deng Xiaoping's important speech "On the Reform of the System of State and Party Leadership" is of great significance. That speech placed great emphasis on the issue of struggle against bureaucratism during the reform of the system of state and party leadership. Deng Xiaoping pointed out: "As far as the leadership and cadre systems of our party and state are concerned, the major problem is the phenomenon of bureaucratism." He said: "The phenomenon of bureaucratism remains a major and widespread problem in the political life of our party and state." "Things have reached intolerable dimensions both in our domestic affairs and in our contacts with other countries."

In the last few years, many bad accidents have occurred in various places all over the country, mostly caused by bureaucratism. We have to admit, that for some of these bad accidents we have had prior warning signs. If the relevant leading organs and leading cadres would have taken action on observing these symptoms, and would have promptly taken preventive measures, most of the accidents could have been prevented. Although no clear forewarnings may have occurred in some cases, they could also have been prevented if the relevant departments or the relevant leadership groups would have had a greater sense of responsibility, paid attention to perfecting the rules and regulations, and would have used modern scientific methods of supervision and monitoring. Due in particular to the lack of a sense of responsibility for party affairs and for the interests of the state and the people, some leading organs and leading cadres would not, after the occurrence of certain bad accidents, study these cases and draw inferences from them to determine systems or measures that would stop similar accidents from happening. After an accident happened, they would not take serious action, or lightly pass over the happenings, and merely take action against a few people directly responsible. Those in responsible leadership positions guilty of bureaucratism would not be taken to task to face administrative or legal responsibility. That means, that after certain bad accidents had happened in recent years, they did not grasp the key issue

in the disposal of these cases, namely to take action against bureaucratism; this is a serious lesson.

In our struggle against bureaucratism, one problem which we must keep in mind is that when some big accident happens that causes loss of life and property, and that is very visible, it will easily arouse awareness and fear among the people, but errors in decision-making due to bureaucratism that may cause much greater damage to the state are frequently overlooked by the people. For instance, when an engineering project ended in failure due to lack of conscientious investigation and study, and the perfunctory way of decision-making, with losses in the millions and huge waste of manpower and material resources of the state, the relevant department had some pretext ready to cover up its responsibility, so that the case was closed. If a case should stir up great resentment among the people, then all that is done is to criticize the relevant leading cadres, order them to make an investigation or transfer them to official posts in other places. This is truly a big defect in our past way of working.

Whether the policy decisions of a ruling party are correct or not is of extreme relevance to state and people; it determines the important question whether the ruling party can count on the support of the masses. The CPC is the leadership core for the people of all nationalities within this state. Since the 3d Plenary Session of the 11th CPC Central Committee, the Central Committee has repeatedly emphasized the need to improve investigation and study, so that policy decisions are scientifically justified and democratically arrived at; this is an extremely important issue. During the struggle against bureaucratism, we must, therefore, also pay attention to oppose the kind of bureaucratism which occurs in decision-making.

After the ideological and political line has been laid out, cadres are the relevant factors of decision-making. Once there is a correct policy decision, there have to be persons to carry it out. Our party particularly stresses employing persons according to their ability, and we oppose appointing people by favoritism; that is absolutely correct. However, due to some lingering problems with our party workstyle, we still have to cope in the work of our cadres with such phenomena as "networks of personal relationships," "shielding behind the talisman of officialdom," etc. Some pander to the principle of one official always having to protect another, or, if an error was committed, they will have a large affair appear small, and if only a small affair, they will cover it up. There are also a few who will mutually shield each other, or mutually gang up with each other, which is all impermissible by party discipline and state law.

Every state cadre, especially a party cadre in a leading position, must serve the people wholeheartedly. Taking salary provided by the people, and not getting upset and angry when the people's interests are harmed, is that still an attitude of serving the people and being responsible to the people?! On seeing the decision of the State Council dealing with the extraordinarily large accidental forest fire in the Daxingan Mountain Range, many people commented: Cadres who are not qualified for their jobs should be dismissed. This is really the only way that leaves hope for party and state, and hope for

the four modernizations. These expressions truly reflect the will of the people.

Presently, many cadres in departments, commissions, and units of the state's central agencies and the masses enhanced their political awareness through studies and have taken the lead in the struggle against bureaucratism. This is an excellent beginning. But we must be fully aware of the fact that bureaucratism is indeed the great enemy of our ruling party, it is a chronic disease. The struggle against it will have to be carried out over a long period of time, with political consciousness and great persistence. We must have the struggle against bureaucratism permeate the entire process of our intensified reform.

To overcome bureaucratism, one extremely important means is the effective institution of democratic supervision. Lenin repeatedly emphasized the role of supervision in connection with the buildup of organs of the Soviet regime. He regarded effective supervision as an important measure to overcome and prevent bureaucratization and decadence in the Soviet regime. As early as 1962, at a large congress of 7,000 people called by the Central Committee, Comrade Deng Xiaoping clearly pointed out the problem of supervision over the party's leading cadres. At the recent All-China Party Rectification Review Conference, Comrade Zhao Ziyang also emphasized the need for open and democratic supervision. According to the provisions of the party constitution, party organizations in party and government organs of all ranks are to exercise supervision of every party member, including responsible administrative personnel, as to their carrying out the party's political line, principles, and policies, observance of discipline and laws, contacts with the masses, as well as to their ways of thinking, their workstyle, and moral conduct. This supervision is particularly important in the case of party cadres with leadership responsibilities. It must become an institution that must be carried on for a long time to come.

To sum up, bureaucratism is the great enemy of the ruling party and also of the four modernizations. All comrades who are devoted to the reform and work hard for socialist modernization, must join the resolute struggle against bureaucratism.

9808

CSO: 4005/928

PROPAGANDA OFFICIAL DISCUSSES 'ONE NATION, TWO SYSTEMS'

Beijing BANYUETAN [SEMIMONTHLY TALKS] in Chinese No 14, 25 Jul 87 pp 27-28

[Article by Jiang Nong [3068 3426]: "'One Nation, Two Systems' Is an Important Part of Building Socialism With Chinese Characteristics"]

[Excerpts] An important task of building socialism with Chinese characteristics is to accomplish the great cause of national unification by unifying the mainland with Taiwan and restoring sovereignty over Hong Kong and Macao. And the best solution to the Taiwan, Hong Kong, and Macao problems is "one nation, two systems."

The concept of "one nation, two systems," which means applying two systems in one nation, was put forward by the party to solve the Hong Kong issue. Applying this idea, the government has successively reached agreements with the British and Portugese governments under which China would resume sovereignty over Hong Kong and Macao in 1997 and 1999, respectively. Only the Taiwan issue remains. In general, the forces in favor of unification are on the rise; discussion is heating up, while doubts are diminishing. Many foreign political commentators say that "one nation, two systems" is a good idea with Chinese characteristics.

"One nation, two systems" has Chinese characteristics because it is consistent with China's realities and plays an irreplaceable role in the unification of the motherland.

After Japanese occupation lasting half a century, Taiwan has been ruled by the Kuomintang for more than 4 decades. Cut off from the mainland for many years, the Taiwanese people are used to capitalism and have little understanding of and are skeptical about socialism on the mainland. Accustomed for years to British or Portugese rule, Chinese residents in Hong Kong and Macao too are not adapted to the system on the mainland.

How to resolve the conflict between unifying the nation and reconciling the differences in ideology, social system, lifestyle, etc.? Neither Chinese or foreign history contains any precedent. It will not do any party any good to solve the problem with non-peaceful methods. To make the mainland capitalist is absolutely impossible. Also out of the question is to force the Hong Kong and Macao residents to accept socialism. A new approach acceptable to all

quarters is needed, one that would facilitate socialist modernization, on the one hand, and take into consideration the history and circumstances of Taiwan, Hong Kong, and Macao and would not damage their residents' interests, on the other. "One nation, two systems" is just such an approach: Within the PRC, the 1 billion people on the mainland would practice the socialist system, while Taiwan, Hong Kong, and Macao would follow the capitalist system as a special administrative region within a united nation.

The successful resolution of the Hong Kong and Macao problems fully testifies to the soundness of the approach.

Making socialism China's dominant feature while allowing certain areas such as Taiwan, Hong Kong, and Macao to practice capitalism not only will not alter the nature of Chinese socialism, but will actually promote the development of productive forces. Within the framework of a unified nation where socialism reigns supreme, the retention of capitalism in Taiwan, Hong Kong, and Macao to maintain their prosperity and stability is consistent with China's fundamental interests and will help the four modernizations.

To sum up, I believe the concept of "one nation, two systems" recognizes history, respects realities, and is full of pragmatism. It represents a sound approach toward unifying the motherland, at the same time maintaining prosperity and stability in Taiwan, Hong Kong, and Macao, and contributes to socialist construction. Accordingly, the concept is an important aspect of the construction of socialism with Chinese characteristics that proceeds from national circumstances.

12581

CSO: 4005/913

FANG LIZHI INTERVIEWED BY FRENCH PAPER

PM130950 Paris L'EXPRESS in French 10 Jul 87 p 16

[Interview with PRC astrophysicist Fang Lizhi by Francesca Cini; date, place not given]

[Text] L'EXPRESS: What kinds of response were there following your expulsion from the Communist Party in January?

Fang Lizhi: I am still on good terms with my colleagues at Beijing observatory. Following my expulsion I received thousands of letters from people in all sectors of society, expressing their sympathy for me. Furthermore, my wife, Li Shuxian, was recently elected as representative for Beijing University. Actually I have never opposed socialism. But what is socialism? Is it the system that we have followed since the fifties? Or is it that which has been implemented since the 3d Plenary Session (December 1978)? Marx said that under the dictatorship of the proletariat there should be free elections on the model of the Paris commune. I do not oppose these ideas: On the contrary, I support them.

L'EXPRESS: Has the campaign against "bourgeois liberalization" that has been going on since the beginning of the year blocked the possibilities of reform mentioned last year?

Fang Lizhi: There are two advantages to the condemnation of "bourgeois liberalization." First, it makes it possible to show youngsters that China's situation is complex. Many social forces fear reform because it threatens to undermine their own interests. Also, recent events have strengthened the reformers' conviction that it is essential to change the system thoroughly. They have realized that if you stop halfway it is still possible to turn back. People no longer talk so openly about the "reform of the political system." However, nobody in China opposes economic reform. This will inevitably have repercussions in the political field. Indeed the reform is a very complex process, whose consequences will be as important to the socialist countries as Martin Luther's were to the Church.

L'EXPRESS: Which social forces support change most strongly?



Fang Lizhi: Our leaders recognize the need for it and Zhao Ziyang has constantly recalled this in recent months. China will never again close in on itself, because if it isolates itself from world development it will have to forego modernization. I am very much aware of this in my field. The sciences are evolving very fast and great freedom of thinking is needed to advance them. Intellectuals are a crucial force in the reform process. I was personally opposed to the demonstrations, and I said so. But the students who protested in december 1986 simply wanted to support the government in its implementation of the reforms.

L'EXPRESS: How much autonomy do intellectuals enjoy?

Fang Lizhi: The exact sciences cannot tolerate prohibitions. Physicists and other sciences cannot tolerate prohibitions. Physicists and other scientists have an inviolable field of responsibility. The same does not apply to researchers in the social sciences or to writers. Although their material living conditions are still very poor, intellectuals are now performing a crucial role in the modernization project. They have at least gained the right to remain silent. This is a great advance from the fifties. This year, for instance, none of my colleagues has written an article to denounce me and I am authorized to continue my work.

L'EXPRESS: How do you view China's future?

Fang Lizhi: I am optimistic. Things are evolving. I believe in the Planck effect -- an effect well known to physicists, whereby theories disappear with the death of those who uphold them.

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CSO: 4619/29

FRG WEEKLY INTERVIEWS FANG LIZHI ON REFORMS

Hamburg DER SPIEGEL in German 27 Jul 87 pp 102-109

[Report on interview with Fang Lizhi in Italy, by correspondent Tiziano Terzani: "'We Must adopt the Western spirit.' Chinese Physicist and Regime Critic Fang Lizhi on the Status of Reforms in His Country"; date of interview not given]

SPIEGEL: Professor Fang, to Chinese students you are a hero. The international press has celebrated you as China's Sakharov. Deng Xiaoping, on the other hand, has called you a "destructive element." The Chinese CP alleges that you have been infected by the plaque called "bourgeois liberalism." What are you really?

Fang: A little of everything. But I am mainly an astrophysicist. The natural sciences are my religion. Einstein once said something similar. In the past I did not understand him. Now I know: We scientists have a faith and a goal; we have an obligation to society. When we discover a truth and society refuses to recognize it, it depresses us. The same thing happened to Galileo. Then we must become involved as scientists. With this mission I am at work in society.

SPIEGEL: What is actually your mission in China?

Fang: Democratization. Without democracy there is no development. Without the recognition of individual human rights, there is no true democracy. In China we do not even know the ABC's of democracy. We must educate ourselves for democracy. We must come to understand that democracy is not something our leaders can give us. A democracy from above is not a democracy, just a relaxing of controls. There will be a hard fight. But it is unavoidable.

SPIEGEL: First you attacked local Party cadres, then the Party committee of the city of Peking, and not long ago the Politburo. What is your next target?

Fang: Marxism.

SPIEGEL: You are going pretty far.

Fang: The fact that Marxism is no longer very useful is a truth that cannot be disputed. As a scientist, I can prove it. Most of Marxism's responses to the natural sciences are obsolete, some even completely wrong. There is no doubt about it. Whatever Marxism has to say about natural science is derived from Engels' book. "The Dialectics of Nature." Something out-of-date or totally wrong can be found on almost every page of this book.

SPIEGEL: For instance?

Fang: In the 1960's, the Soviet Union and China criticized the findings of modern natural science several times with the aid of Marxism. In biology, they criticized genetics and in physics, the theory of relativity, extending their range of criticism from cosmology to the development of the computer. Not once was this criticism correct. How can it then be said today that Marxism should guide the natural sciences? This idea is completely wrong.

SPIEGEL: Does that apply only to the natural sciences?

Fang: No. If one considers what occurred in China during the Cultural Revolution, Marxism has lost its authority in social questions, as well. I was one of the first to speak of an "alienation of Marxism" in public.

SPIEGEL: Did you ever believe in Marxism?

Fang: And how! Immediately after the Liberation (1949) and in the 1950's, I firmly believed in Marxism. In 1955, when I joined the Party, I was convinced that Marxism served as a beacon for every sphere and that the CP was absolutely good.

When I was expelled in 1958 during the campaign against rightist deviants, I practiced sincere self-criticism. I was convinced that I had done the Party an injustice. Now the Party has expelled me for the second time, but this time I know that I was not mistaken. Therefore I have refused to engage in self-criticism.

SPIEGEL: In 1979, in accordance with the Chinese constitution, Deng decreed that every citizen should be guided by four principles: the socialist way, the dictatorship of the people's democracy, the leadership of the Party, and Marxism-Leninism and the ideas of Mao Tse-tung.

Fang: Marxism is a thing of the past. It is useful for understanding the problems of the last century, but not for those of today. In physics it is exactly the same. Newton developed his theory 300 years ago; it is still valuable, but does not help to solve today's problems, such as those of computer technology. Marxism belongs to a particular cultural period, which is past. It is like a worn-out dress that must be laid aside.

SPIEGEL: When you talk that way, one is forced to say: This time the Party was right in expelling you. Do you wish to found a new party yourself?

Fang: I have asked myself the same question. But under the present circumstances that would be impossible. Perhaps in thirty years. Perhaps then we will be in the same position as today's Taiwan, where there is more than one party.

SPIEGEL: Are the four basic principles not a kind of strait jacket, out of which it would be impossible for China to develop into a democracy?

Fang: When the principles remain inflexible, it is impossible. But the leaders themselves have said that Marxism must be developed. This sentence appeared in the "People's Newspaper," and I have taken it up. We can retain the principles if they are in a process of development.

SPIEGEL: But how can basic reforms be achieved within the present power structure?

Fang: One could retain the forms, but change their content. The Protestants carried out their Reformation against the Catholic church, but they continue to use the same Bible. In China we could do the same thing. The sheep's head still hangs above the shop door, but within the shop itself, dogmeat is sold.

SPIEGEL: You consider a communist system open to reform; but till now that has never succeeded

Fang: It is certainly difficult; but if any country has a chance, it is China

SPIEGEL: More likely than today's Soviet Union under Gorbachev?

Fang: Certainly. We are in a much better position for it, for one simple reason: In the Soviet Union the CP [Communist Party] has a record of a number of successes, for example, in the areas of defense and science. The intellectuals enjoy much greater freedom than we have ever had. In China, on the other hand, the CP cannot boast of one single success. It has not achieved anything worthwhile in the last 30 years. That is why cadres at

every level are also questioning it. That is why some among even the highest cadres are admitting to not having done any good. It would not be so easy to say that in the Soviet Union.

SPIEGEL: Does China really not have one single achievement to register?

Fang: What do you mean by achievement? Sure, in ping-pong and volleyball--there we have been successful, but not in any other area. That is why the need for reform has become so strongly felt at all levels of society. Faith in the Party has evaporated in our country, particularly among the young.

I have an older friend who is also a physicist. He was already a CP member before the Liberation and fought in the underground. In 1958 he was classified as a rightist deviant, without ever complaining about it at the time. Only recently did he publicly state, "My whole life long I have firmly believed in the Party. Today I realize it was only a dream." Many intellectuals think as he does.

SPIEGEL: You always speak as if it were taken for granted that intellectuals should be the vanguard of society. Isn't the old Platonic idea of philosophers as statesmen behind that?

Fang: Intellectuals are not kings, but they are the main force that carries society forward. They should be independent and free. They deserve an important role.

SPIEGEL: Up to now the Party has determined the role of the intellectuals. In the Cultural Revolution they were forced down into the lowest, "stinking" level of the "nine categories" in society. Now, under Deng Xiaoping, they have risen to third place, behind farmers and workers. But they are still not independent.

Fang: Right. Mao had described this dependence of the intellectuals in the following terms: "The hairs must be glued tightly to the scalp." Nothing about this situation has changed. Intellectuals continue to be used as tools. It is now time for them to show their strength. No one should be intimidated. That is democracy. If we do not manage that, it will hardly be possible for China to become a really well-developed, modern country.

SPIEGEL: Something similar was already said in 1978. At that time, on a billboard that became known as the "Wall of Democracy," the worker Wei Ying-sheng wrote: "Without democracy, no modernization!" For that he was imprisoned for fifteen years. You Professor Fang, are still free. Is it because you are a well-known scientist, while Wei Ying-sheng was only an electrician?

Fang: Naturally. That is how it is in China. A worker who finds fault with something is easy to get rid of. The government does not worry about unrest among workers; it can take care of that easily. Not a few such instances of unrest have occurred lately, but they have not become public knowledge. Abroad, no one knows of them because these people have no international contacts.

SPIEGEL: Is it different for intellectuals?

Fang: When students demonstrate, the government does worry more about it. It is not so easy for it to risk taking action against students. That is why I maintain that the power of the intellectuals is relatively great. That is why I tell my students over and over: Whoever has knowledge has influence as well; the government has to show regard for him. I advise my students not to begin by talking big, but to study very hard. Once someone has successfully completed his studies, however, he can start talking.

Wei Ying-sheng spoke 10 years ago. Today I speak as he did. In another 10 years perhaps more scholars will speak up in the same way. People should be able to criticize their leaders without fear. That is a sign of democracy. Should I not have criticized Hu Qiaomu because he is a member of the Politburo? Those at the top have said themselves that Chairman Mao was a man and not a god.

SPIEGEL: What is this about Hu Qiaomu?

Fang: In 1986 I wrote an article about quantum cosmology. Hu Qiaomu criticized the article and labeled me a "subjective ideologist." On the basis of Marxism, he attacked my thesis that the universe is finite, because in a draft for a book, Engels had once written that the universe is definitely infinite.

I accept any well-founded criticism. But does Hu Qiaomu know anything about cosmology? If he had some understanding of it, I would be glad to discuss it with him. Otherwise there is no point in it. Unfortunately, he is not in a position to say one word about it.

SPIEGEL: What is the human rights situation in China?

Fang: It is dangerous to talk about it. Human rights are taboo in China. In our country the situation is far worse than in the Soviet Union. Wei Ying-sheng is a famous case; but there are still thousands of others whose names are not even known. In the Soviet Union there are at least lists of names. Not in our country.

SPIEGEL: Is democracy really a necessary prerequisite for a country's development? States like Taiwan, South Korea, Singapore, and the crown colony of Hong Kong have made enormous economic progress without being true democracies.

Fang: First of all, in the countries you name, there is much more democracy than we have in China. Second, these countries are under American protection, and the U.S. wants their economies to be developed. In the case of China, it is different. In addition, in China it is particularly difficult to separate political democracy from economic democracy.

SPIEGEL: Deng sees it differently. He told the Chinese, "Get rich. Getting rich is honorable. The Party will take care of everything else."

Fang: In our country the Party does not just want to lead in politics. It wants to have everything under its control, including the people's way of life and thoughts. The factories are to be managed by managers nowadays, but the Party cadres retain control. The farmers enjoy the free enterprise system, but the cadres tell them: You still need our seal; you must still pay us. Therein lies the root of the new corruption. In order to create a genuine economic democracy in China, political control must be abolished. This is just what the Party is afraid of.

SPIEGEL: Hasn't Deng Xiaoping opened Pandora's box with his economic reforms? Doesn't Deng also want democracy?

Fang: No. Deng's reforms are supposed to stabilize the system in the short run. What Deng wants to avoid is the collapse of the system. The Party is caught in a dilemma: If it effects reforms, it must limit its power; if it does not effect reforms, it will lose its power all the faster.

SPIEGEL: Deng Xiaopeng is the hero of the West. In 1985, "Time" named him "Man of the Year." The West sees in him an ally on the international scene.

Fang: It seems to me the West has a very superficial understanding of China.

SPIEGEL: Doesn't Deng have a comprehensive, if unspoken plan for a new China?

Fang: No. Deng has no general plan. We Chinese are standing before a gigantic river and trying, like blind people, to cross it by feeling our way from stone to stone. We do not know the river and are in danger of ending up right back where we started.

SPIEGEL: Could Deng revoke his reforms again?

Fang: I don't think so. The economy would collapse, and the Party would fall apart. In 1962, when millions of people in China starved because of economic errors, the country was held together only by Mao's prestige. Today no one has that kind of prestige any more.

SPIEGEL: But many of Deng's reforms have in fact been successful.

Fang: Many people, especially outside the country, think so. In agriculture there have been successes in production. But in the cities and in industry reforms have not yet really begun. Efforts at wage reform and price reform have remained unsuccessful.

SPIEGEL: But you cannot deny that things are going better for the people of China today.

Fang: They have more refrigerators and television sets. The reforms have produced more money, and it is being spent on consumer goods.

SPIEGEL: Is that not progress?

Fang: Certainly, but as society's progress should be universal. The economy is an important indicator of development, but not the only one. The Arab countries are very wealthy, but their society is undeveloped. It seems to me that education and general cultural level are important characteristics of a well-developed society. Food and drink are indeed important, especially in such a poor country as China. But it is just as important for a person to understand that he is a human being.

SPIEGEL: So you are not in agreement with China's present goal that every Chinese should have an average annual income of 800 U.S. dollars in the year 2000?

Fang: Being rich is naturally better than being poor, but it is not an all-inclusive goal.

SPIEGEL: Today China imports Western technology in order to accelerate its own modernization process. Do you think that is right?

Fang: Sure. But it is not enough to import a little something Western here and there, or to buy a couple of large computers. To really modernize ourselves, we must introduce the spirit of Western science into China. Chinese culture has gained many deep



insights, but it does not understand the logical way of thinking. For our development we must adopt the Western spirit.

SPIEGEL: The Party has accused you of being poisoned by Western ideas and of being in favor of a total westernization of China. Is that true.

Fang: We must open ourselves in every direction; then much that is positive will enter our country, but our own values will not be lost. I have never claimed that we should throw out our good Chinese traditions. The feudal relationships in Chinese society, however, are harmful and must be abolished. Western moral standards are indeed different from ours, but that does not make them worse.

SPIEGEL: When you call upon the Communists to reform their system, are you not then asking the Party to commit political suicide?

Fang: No one can ask them to relinquish their power. The Communists stick to their totem pole. So we have to see if there is a way around it. Might it not be possible for the totem pole to melt away by itself some day?

SPIEGEL: If the totem pole disappears, China will lack an alternative power structure. Isn't there a danger of chaos breaking out or warlords ruling the land?

Fang: This danger always exists in China.

SPIEGEL: What will happen when Deng Xiaoping dies?

Fang: In the short run things could go worse for us; in the long run, much better. It is possible that Mao's ideas will no longer prevail after Deng's death, and we could then begin a thorough discussion of the last thirty years. That is probably what Hu Yaobang, the secretary general who was dismissed in January, had in mind. He once said that no portrait of Mao should hang in China anymore. Today the only one in the country is hanging above the Square of Heavenly Peace, but Mao's thoughts still dominate us, nonetheless.

SPIEGEL: Could the army assume an important role in the future?

Fang: The army already plays an important part in our society. But it is no chunk of iron. The different levels have different standpoints. I, for example, have received letters of solidarity from many members of the army.

SPIEGEL: How many?

Fang: Thousands. They were often open postcards with names and addresses, a courageous deed in China. On one there was even the message: "If this postcard does not reach its destination, there is no democracy in China." As I went through customs on my trip out, the police at the windows stopped working and approached me, "Are you Fang Lizhi? Did you solve your problems? Are you being allowed to travel the country? Good!"

SPIEGEL: Are you sure that you will not be arrested after you return or at least banished to a distant region?

Fang: I am prepared for that.

SPIEGEL: You could emigrate...

Fang: In the past I seriously considered that. But now it is no longer possible. If I left now, I would be letting my friends and my students in China down. High Party cadres have criticized me; nevertheless, I will remain in the country. The children of the cadres, however, have not been criticized, yet they are studying in other countries.

SPIEGEL: What happened to the students who participated in the demonstrations?

Fang: As far as I know, no student of the well-known universities has been arrested. We do know, however, that all of them were photographed and registered by name. They will be kept on a tight rein later.

SPIEGEL: The campaign against "bourgeois liberalism" is still rolling...

Fang: That campaign has shown us how strong the resistance to reform is and how much we have underestimated the power of our opponents. We were too optimistic. The campaign, however, has convinced more and more people of the necessity of the reforms. We do not want a revolution: that would be difficult, in the first place, and secondly, not necessarily a good thing. So China is left with only the way of reform. Democracy, education, and intellectual freedom are absolute requirements for that. Without them, China has no future, with or without the Communist party.

SPIEGEL: Prof Fang, we thank you for this interview;

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CSO: 4620/048

## 'BIOGRAPHIES OF CPC FIGURES' BECOMES BEST SELLER

OW291102 Beijing XINHUA in English 1341 GMT 29 Jun 87

[Text] Xian, June 29 (XINHUA)--"Biographies of Chinese Communist Party Figures" has been very well received since it was published in 1981, according to the Shaanxi People's Publishing House.

The book serves as a supplement to the recorded history of the party and the army and vivid teaching materials in the education in socialist ideology and culture, said Marshall Nie Rongzhen upon publishing the book.

"The experiences of the forerunners of the Chinese revolution show to the younger generation that only socialism can save China," said Associate Professor Dong Jianzhong of the Northwest China Telecommunications Engineering Institute.

The heroic exploits and the growth of many revolutionary martyrs answered the question of why to live and how to live, a question often raised by the young people today, commented research fellow Ma Yuqing of the Xian Political Academy of the Chinese People's Liberation Army.

The publishing house has received many letters from scholars and China watchers abroad, offering their comments.

A British scholar wrote to the editor-in-chief, saying that the data collected in the book are credible and that he found it very useful in his studies.

A historian from Chicago University described it as a treasure house of valuable historical data about life stories of the leaders of the Chinese Communist Party and the appraisals given are factual and all-sided instead of eulogistic.

The book is the first of its kind published in China. Up to the present, it has been published in 32 volumes, totalling 1.9 million copies. The first 20 volumes have been reprinted twice or three times. The book, designed to have 50 volumes and feature more than 700 leaders and prominent figures in the history of the Chinese Communist Party, is scheduled to be completed by 1989 when the country celebrates its 40th founding anniversary.

The book was listed as 1986's top best-seller by "Chinese Youth News", "well-read" magazine, and Beijing's XINHUA book stores.

The compiling committee, made up of 16 experts and scholars, started work on the biographies in 1979.

## LONG-TERM, STEADY ECONOMIC GROWTH URGED

HK031501 Beijing JINGJI GUANLI in Chinese No 5, 1987 (Undated) pp 4-6

[Article by Shen Liren (3088 4539 0086): "Strive To Achieve a Long-term and Steady Growth of the National Economy"--edited by Lin Daojun (2651 6670 0689)]

[Text] In recent years, our country's economic strength has grown rapidly. The output volume of many industrial and agricultural products has reached the front ranks of the world. The people's living standard has noticeably improved and a delightful economic situation has emerged. The current tasks are to earnestly summarize the experiences and to strive to attain a long-term and steady growth of the national economy.

Actual practices in economic construction have revealed to us that it is not easy to realize a steady growth of the economy. During the 30 years before the 3d Plenary Session of the 11th CPC Central Committee, our country's economic growth could not be said to have been slow. The problem was that the fluctuations had been too great, and the growth had not been steady enough. However, in the past 8 years, it has been more stable than before, although in the midst of a steady growth, unstable elements have still been lurking. It was only after two full years' efforts that the over-heated growth and the "loss of control" in several sectors in the 4th quarter of 1984 were initially rectified. Still, the problem exposed in this interlude have left their effects up to now. The major problems have been: 1) The overheated growth, speed and benefits of the economy turned from being unified to being contradictory to each other and led to the fall of the majority of the postures and targets of the profit rate, cost of production and quality of products. 2) The proportionate relationships between agriculture, light industry and heavy industry and accumulation and consumption have gradually become coordinated, but the economic structure has not been transformed, resulting in the co-existence of idleness and shortage, stagnated sales and goods out of stock. 3) In the super-speed growth of the economy, the various industries and trades and the enterprises have been enticed to going into big projects and waste and extravagance are prevalent. 4) Fiscal receipts and expenses have not been balanced, resulting in an over-issuance of banknotes and too high a rise in the prices of certain commodities. 5) The tense environment of the economy and the increased difficulties in running the enterprises have gone against the smooth going of the reform. Hence, the current demand for a long-term and steady growth of the economy is extremely timely and necessary.

There were many causes for the above-mentioned conditions. Objectively speaking, first, because the traditional economic development strategy had a rather formidable character of regularity or consistency; second, because the traditional economic structure had a character of laziness; and third, because the fixed pattern of the economic composition was rather stiff in character. For a prolonged period, the growth of the economy had been repeatedly overheated and this was because of the influences of the strategy, the structure and the composition. During the "Sixth 5-year Plan" period, the 8-character guideline with readjustment as the center was carried out and only initial effects were achieved. The "Seventh 5-year Plan" advocated the changeover of the economic development strategy and the economic structure from the old pattern to a new pattern and this also was only the beginning. Striving to achieve a long-term and steady growth of the national economy requires the input of efforts from various sides:

#### 1. Correctly Treating the Relations Between Speed and Benefits

The traditional economic development strategy which our country has adopted for a prolonged period has the main target of increasing the gross output value of industry and agriculture. Speed and benefits are originally unified, but under the conditions of one-sidedly striving for and blindly competing for speed, benefits are frequently neglected, momentous ups and downs occur, and the steady growth of the economy is wrecked. As of now, continuing to carry out the traditional strategy is no longer workable. For example, financial revenues originally were based on the gross output value of industry and agriculture; but due to increasingly lowering the profit and tax rate on the output value, depending on increasing the output value cannot ensure the growth of the financial revenues. Again, for example, salaries and wages were originally based on labor productivity rate; but following raising the gross output value labor productivity rate and lowering the net output value labor productivity rate, increases in salaries and wages have brought along the upward floating of the ingredient of salaries and wages and may be the cause for the increase in the cost of production and the rise in prices. Hence, it is the urgent task now to carry out a change in strategy, that is, switching from the speed pattern or quantitative pattern to the benefit pattern or the qualitative pattern.

In order to treat correctly the relations between speed and benefit, we may consider certain possible combination postures: high speed high benefit, high speed low benefit, low speed high benefit and low speed low benefit. Low speed low benefit should be left out. High speed high benefit is naturally ideal but under the present level of the economic system, economic structure and technology and the management level, the necessary conditions are lacking and it is difficult to realize this situation. Comparing the remaining two alternatives, we should opt for low speed high benefit in order to achieve actual benefits than high speed low benefit, which only sounds good. Making a careful calculation, if we can strive to achieve medium speed and medium benefit, then it will be possible to achieve a long-term and steady growth in the national economy.

## 2. Doing the Utmost to Maintain a Basic Balance Between Social Gross Demand and Social Gross Supply

From beginning to end discussions have been rife regarding whether or not we should, in the course of economic growth, maintain a basic balance between social gross demand and social gross supply. Some people are of the opinion that at present some equipment is lying idle while there is surplus labor power and hence conclude that demand is insufficient rather than supply. This does not analyze the real situation. At present the idle equipment is principally found in those industries and trades of low technology which have gained an irregular development during the several investment inflation periods. To employ the methods of currency inflation or credit inflation to expand demand, to stimulate the operation of these idle equipment and to raise the utilization rate of the labor power not only will be restricted by the factors of energy and raw materials but also cannot conform with the changed market demand and consumption demand. For a time a rise may be recorded but inevitably it will fall again and there will be further reverses and setbacks.

After several years of the reform, certain experiences have already been gained in maintaining a basic balance between social gross demand and gross supply. In the past, pure reliance on administrative measures to apply "emergency brakes" and thereby to bring about all-round retrenchment and depression produced dire side effects. At present, aside from using financial measures to strenuously seek the gradual balancing of the budgetary receipts and expenditures, principal reliance is laid on firmly maintaining a stable currency policy, on strictly controlling the supply volume of money, and on stabilizing the social gross demand within a rational scale. In controlling the supply volume of money, we have refrained from universally "taking the same steps" but have acted differently according to different circumstances, tightening or easing the control when and as the situation needed. By so doing, demand is controlled and supply is not affected; at the same time, supply is facilitated and demand is not expanded, thus helping the steady growth of the economy.

## 3. Rationally Arranging the Investment Scale and the Salaries and Wages Funds

In order to control the social gross demand, it is necessary to grasp hold of the demand structure and principally to rationally arrange the investment scale and the salaries and wages funds. Some comrades are of the opinion that since the scale of the growth in capital construction in recent years has not much exceeded the rise in the commodity price index, it seems that the investment scale has already come under control. In reality, this refers to the portion comprising financial appropriations only and fails to note that there has been an even larger increase in the extra-budgetary investments and refers only to the completed investment volume of the year and neglects to note the even larger increase in the scale of projects under construction. And there are some people who are concerned with the possibility of investment control affecting the stamina of the economic growth. We should note that among the fixed projects many belong to the categories of redundant construction and "blind" construction. By means of holding strict discussions and making careful selections, outstandingly playing up the major points, and readjusting the structure it will be entirely possible to accomplish the feat of not lowering but raising the actual investment benefits even after reducing the investment scale.

It is necessary to rationally arrange the scale of consumption funds the principal contents of which are the salaries and wages funds and to prevent consumption inflation. The wage reform and wage readjustment in recent years have the character of "repaying old debts." The state's profit concession to the enterprises still retains a degree of egalitarianism. It entices the populace to the harbor excessive wishes and invites competitive sentiments among them. In the current situation of the investment benefits not having yet been clearly increased, methods of this kind should not be continued. From now on we should not use again the method of "making promises" to arouse the workers' enthusiasm but we should not simply freeze it altogether. Rather, we should build the increase in income on the foundation of improving the effects and benefits and should look for suitable means to bring about mutual facilitation.

#### 4. Initiating Increases Productivity and Practice Economy, Increase Revenues and Reduce Expenditures Activities

In recent years, the increase in macroeconomic and microeconomic benefits has not progressed rapidly. One of the important causes is that the practices of engaging in arduous struggles, diligently and frugally building the country and diligently and frugally running the enterprises have been steadily losing ground. The central authorities' call to increase productivity and practice economy and increase revenue and reduce expenditures hits the right spot and wins popular acclaim. Increasing production is not blindly seeking an increasing output value but means increasing the production of marketable products; it not only seeks increasing the output quantity but also insists on maintaining the products' quality. Practicing savings is cutting down consumption and lowering the production cost and the circulation expenses. Only by so doing can we increase the financial receipts, increase the enterprises' receipts, increase the individual's income, and save all unnecessary expenses.

In developing double-increase and double-economy activities, it is necessary to strengthen political ideological education on the one hand and adopt suitable economic measures on the other. In the past, the standard for assessing the performances of governments and departments at various levels and enterprises laid the stress on quantitative growth, questioned only output and never asked about input. This led to the random setting up of offices and organs, to practices of ostentation, extravagance and vainly showing off affluence and prosperity. If we can rectify the practices, and lay the emphasis on economic benefits, social benefits and contributions to the state, very different results can be achieved. Certain definite administrative measures are still necessary, such as issuing mandates to stop the practices of undertaking unnecessary construction projects such as the building of "memorial halls," "road archways" and so forth, using public funds to give feasts and to tour places. Performing such activities well can obtain the plural benefits of regulating social demand, improving economic benefits, reducing financial deficits and realizing a steady growth rate.

## 5. Gradually Intensifying the Structural Reform of the Microeconomic Foundation and Macroeconomic Operations

Traditional economic development strategy and traditional economic structure are unanimous. The current co-existence of the two structures causes frequent conflicts and this can be solved only through their conversion at the same pace. Some people are worried that after invigorating the enterprises there may occur again the loss of macroeconomic control. In reality, resolving the problem of an enterprise's operation mechanism aims not only at making it possess authority, benefits and responsibilities but also endowing it with the mechanism of self-regulation, as this is the only road to preventing the loss of macroeconomic control and is also the road to effectively curbing the enterprise's expansion ambitions and realizing a steady growth of the economy.

On the other hand, placing major stress on strengthening the enterprise's vitality does not negate the important nature of reforming the macroeconomic operational system. Invigorating the enterprises must be coordinated with invigorating the markets and the economy so as to provide the enterprises with a relatively lax objective environment for them to give play to their vitality. This lax environment is the reform's prerequisite and also its result. When economic operations are under stress, instead of using administrative measures to "block" the tensions, it is better to resort to economic measures to "smooth out," and, by means of perfecting the market mechanism, to regulate the macroeconomic operations. Otherwise, more blocking will only increase the tension, reform of the economic structure will fall back and switching of the economic development strategy will be halted.

## 6. Tightly Grasping the Transformation of the Economic Structure and the Production Structure

Instability in economic growth causes the slanting sideward of the economic structure and the production structure. Irrationality in the economic structure and production structure will conversely affect the steady growth of the economy. Just as in structural reform, at the start of the switching of economic development strategy, and slight change will bring noticeable results. Following the intensifying of the switching work, difficulties will daily increase. At present, striving to obtain a steady growth in the economy will not show any immediate effects through merely relying on readjusting the proportionate relationships on the surface. Rather, it is necessary to undertake transformation at the grassroots levels deep in the economic structure and production structure. Only through making them rationalized is it possible to provide reliable conditions for switching the strategy. For example, in order to suit the production structure to market demand and changes in the consumption structure, it is necessary to transform the industries' and trades' structures, the product structure, the technological structure, the marketing structure, and so forth. Naturally difficulties will be met with in so doing but this must be tightly grasped.



The method of transforming the structure principally calls for the formulation and execution of a set of practical industrial policy, technological policy and other economic policies and the integration of regulation from the top to the bottom and responses from the bottom upwards. Simple reliance on directives inevitably causes overlooking certain details and cannot form an integrated economic organic body. Transformation and retionalization of the economic structure and the production structure are the fundamental measures to strive for a steady growth of the national economy and to eliminate the unstable factors.

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CSO: 4006/880

## PUBLIC POLLS INDICATE SUPPORT FOR REFORMS

OW180832 Beijing XINHUA Domestic Service in Chinese 1442 GMT 17 Aug 87

[Article by reporters Zhou Kejin and Xu Kehong]

[Text] Beijing, 17 Aug (XINHUA)--The results of recent public opinion polls conducted by China Society Survey System, the country's first national polling organ, indicated that 84.7 and 91.6 percent of the masses respectively believe that the country's economic situation and the people's living standards have improved in the past 8 years of reform; that 9.6 and 5.4 percent believe that the situation has remained unchanged; and that 4.4 and 2.4 percent believe that the situation has deteriorated and declined. Some 85.2 and 59.7 percent of the masses respectively believe that the legal system has improved and that the people's democratic rights have been enhanced; 10.3 and 34.3 percent believe that the situation has remained unchanged; and 4 and 4.2 percent believe the situation has deteriorated and declined. Some 93.8 percent of the pollees hold that the reform of political structure is "necessary," 0.5 percent consider it "unnecessary," and 5.1 percent answer "don't know."

This was released at the first press briefing by China Society Survey System today.

China Society Survey System, established under the China Economic Restructuring Research Institute on 2 May this year, has set up the first urban polling network in 40 cities strictly in accordance with scientific methods. The first pollings were conducted on 2,576 households in 40 cities; the second pollings were concentrated on Beijing, Tianjin, Shanghai, and five other extra-large cities by sending questionnaires to 2,415 people selected by random sampling.

According to the initial statistics of the results of the two polls, people gave fairly high appraisal to the 8 years of reform. People giving "rational" appraisal to four reform measures, including contract responsibility system for rural households, individual business operation policy, plant director responsibility system, and leasing contract system accounted for 69.9, 59.9, 70.3, and 48.9 percent respectively; those believing that the above measures were "irrational" constituted 3, 13, 6.1, and 6.9 percent respectively; and the rest answered that they "do not understand."

In regard to reform of political structure, the pollees held that among the flaws of existing political structure, four areas are badly in need of reform; namely overstaffing, overlapping of government offices, life tenure of leading cadres, and lack of effective system to supervise cadres. Those expressing dissatisfaction with the existing system of housing allotment, wage system, personnel transfer system, and cadre selection system accounted for 49, 36, 33.8, and 33.5 percent respectively; and those expressing that they do not understand accounted for 13.5, 11.8, 34, and 28.1 percent respectively.

A responsible person of China Society Survey System told the reporters that the imminent tasks of this national public opinion polling organ are to regularly conduct polls, collect information on mental reactions of people in all walks of life, strive hard to promptly and correctly understand the people's thoughts and sentiments in all aspects, understand different demands of people from different strata and the changes in the pattern of distribution of interests, conduct polls on the ability of society to sustain major reform measures, and provide social psychological basis for making policy decisions on reform.

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CSO: 4006/880

## APPROACHES TO STATE ENTERPRISE REFORM

Beijing JINGJIXUE DONGTAI [TRENDS IN ECONOMICS] in Chinese No 4, 5 Apr 87 pp 1-6

[Article by Tang Fengyi [0781 6265 5030] and Hu Yongming [5170 3057 2494]: "Discussion and Critique of State Enterprise Reform"]

[Text] As reform of the economic system proceeds gradually, intensified reform of state enterprises has attracted more and more interest and has become the key to extending economic reforms to the higher strata. This article offers a brief critique of the theoretical discussions of reform of state enterprises among theoreticians in the last two years.

A. Necessity and Urgency of Intensifying State Enterprise Reform

In the early stages of reform, people were not entirely clear on how to evaluate the status and significance of enterprise reform as part of reform of the entire economic system. Back in 1979, some comrades put forth the thesis that economic system reform was in fact reform of the system of state ownership, (Footnote 1) (Cf. Dong Fureng [5516 6534 4356], "Problems in Forms of Socialist Ownership," JINGJI YANJIU, 1979 No. 1) which many people found difficult to accept and understand. Once this theoretical discussion of the ownership of state enterprises began, virtually every comrade in economic circles believed that enterprise reform and reform of economic operating mechanisms were two interactive and interdependent aspects of economic system reform and that, in fact, adjustment and reform of the ownership relationships of state enterprises was a prerequisite for establishing healthy economic operating mechanisms; with reform of these operating mechanisms but without a corresponding reform of enterprise ownership relationships, it would be difficult to achieve the changeover from the old system to the new or to make enterprise behavior more rational and achieve the creation of a planned commodity economy.

The reason for this significant change in the view of enterprise reform among theoreticians is primarily that, since the second half of 1984, as urban economic reforms proceeded gradually, and particularly after the scientific thesis that "a socialist economy is a planned commodity economy" was advanced by the Third Plenary Session of the Twelfth Party Congress and after the gradual implementation of this new system of a planned commodity economy

(concretely manifested as a tripartite reform effort consisting of increasing enterprise vigor, perfecting the market system, and shifting from direct macrocontrol to indirect control), contradictions suddenly arose between the traditional microeconomic foundation (primarily property relationships) and the operation of a planned commodity economy, concretely manifested as irrational enterprise behavior and the lack of a sound microeconomic foundation for indirect macrocontrol, as well as all sorts of confusion in economic operations. It was practice itself that demonstrated the urgent need to reform the property relationships of state enterprises. Against this background, theoreticians clearly formulated once again the issue of reforming state ownership, demonstrating by means of the following points the necessity and urgency of reforming the form and intension of state ownership.

1. If a basic solution is to be found for the problem of invigorating enterprises under the system of ownership by the whole people, there must be a corresponding reform of the property relationships of state enterprises. Some comrades believe that the economic relationship between the state and whole-people enterprises can be summarized as the relationship between owner and operator, which is no doubt a breakthrough when compared to traditional concepts and the old system. However, this merely differentiates the managerial authority of state and enterprise and does not give enterprises ownership of the means of production; enterprises are still unable to free themselves from dependency on the state's management agencies, and they cannot achieve true autonomy. In addition, enterprises lack genuine property rights over capital, which deprives enterprises of any sense of responsibility and any motive for continuing to accumulate. This necessarily stifles enterprise vigor.

2. Reform of the ownership system is an objective requirement for China's current dual-transition stage. Those holding this view believe that the necessity of reforming the state ownership system is determined basically by a dual transition from one model to another. Specifically, it is determined by the changeover from the extensive, speed-oriented model to an intensive, profit-oriented model, and by the transition from a highly centralized product-economy model to a planned commodity-economy model. The historical reasons for and significance of reform of the ownership system should be viewed against the background of the dual transition from one model to another. They believe that the traditional economic-development and economic-system models are based on and conditioned by the state's concentration and holding of property; the concentration of ownership and management authority in the state is the basis of the traditional system. Therefore, if a dual transition in models is to be achieved, there must be a fundamental reform of the property relationships of state enterprises.

3. Reform of the ownership system is the basic way to make enterprise behavior rational. Many articles have related the problems now arising in the implementation of reforms to the simple separation of the "two authorities" between state and enterprise, which can easily lead to conflicts between the state's interests and those of the enterprise and its staff and workers, causing the enterprise to be concerned solely with its immediate and short-term interests while slighting its long-term development. In terms of improving enterprise behavior, this demonstrates the urgency of reforming the

system of state ownership. This is because, with enterprises lacking property rights over their capital, they are forced to maximize their short-term profits. This leads to unchecked distribution of financial and material bonuses and to higher product prices that are difficult to bring under control.

4. Many comrades have also expounded on the the significance of intensive reform of the state ownership system in terms of indirect macrocontrol over a planned commodity economy requiring a corresponding microeconomic foundation. They believe that an effective macrocontrol system is determined not only by whether the state's economic plans are realistic, whether macromanagement is scientific and rational, and whether policy measures are appropriate, but to a great extent also by whether microeconomic units are able to react promptly and sensitively to macroeconomic regulatory measures. This is because the intension of ownership relationships determines the direction of enterprise economic behavior and the sensitivity of economic parameters. Since reform of China's economic system, a great deal of work has been done in giving enterprises authority and incentives, whereas there has been relatively little done to strengthen enterprise responsibility and pressure and to encourage enterprises to exploit their own potential, so that enterprises take responsibility for their profits but not their losses; budget constraints have been weakened. In this sense, therefore, reform of the intension of state ownership is essential.

#### B. Comparing Several Trains of Thought on State Enterprise Reform

What is the target model of state enterprise reform? Given China's situation, by what means can the reform of state enterprises achieve the anticipated goal? In the last two years theoreticians have advanced several stimulating proposals and suggestions; here we shall offer a critique of only a few of the major reform ideas.

The first proposal is the capital-management responsibility system. This essentially includes three basic aspects: capital appraisal, profit sharing, and management responsibility. (Footnote 1) (Cf. Hua Sheng [5478 3932], et al., "Reconstruction of a Microeconomic Foundation," JINGJI YANJIU, 1986 No. 3) The characteristics of this proposal are as follows: while maintaining state ownership over the means of production, completing and propagating capital becomes the primary aspect of the enterprise's contract; the enterprise is given greater autonomy, and the state shares profits according to how much of the state's capital the enterprise is using, severing the umbilical cord that allows the enterprise to eat out of the state's pot of rice and stabilizing enterprise behavior. There was considerable reaction to this view. Some cities and enterprises have now begun to try out this capital-management responsibility system.

We believe that, theoretically, this approach has some novel aspects to it. First, it offers a new means of capital appraisal in the absence of complete money market conditions and thereby facilitates demarcation of the property boundary between state and enterprise, creating a relatively equal external environment for autonomous enterprise operations. It casts off the old conception of capital as a material object under the product-economy system

and offers a new approach to computing capital under commodity-economy conditions. Second, by placing the risks of enterprise operation on those who contract for the capital, it solves to a certain extent the problem of personalizing property responsibility in a whole-people enterprise, which is clearly beneficial in tightening up the enterprise's financial constraints and increasing its competitiveness. Third, through the mechanism of capital appraisal and reappraisal, it is to a certain extent possible to achieve long-term, streamlined enterprise policy-making. This is because a fundamental defect in our implementation of the various management responsibility systems in recent years has been enterprise rewards and penalties have been linked only to its income in the year in question; this unavoidably encourages short-term enterprise behavior. The reappraisal mechanism of the capital-management responsibility system focuses rewards and penalties for managers on the increase in capital value after the expiration of their tenure, thus giving managers incentives to increase accumulation and promoting long-term enterprise development.

In practice, this approach still has several problems that should be studied and resolved, beginning with the target model of economic system reform, which is the development of a socialist commodity economy and creation of a new system. First, while remaining within the framework of the relationships of the state ownership system, this approach attempts to achieve the goal of enterprise invigoration by changing the type of management and strengthening economic responsibility. Unfortunately, it is still difficult to basically eliminate the traditional system's drawbacks of excessive state interference in enterprise affairs and unequal separation of government and enterprise, so that the "two authorities" are difficult to differentiate. Second, with the capital-management responsibility system it is still difficult to eliminate the current defects of enterprises taking responsibility only for profits and not losses, and the weakening of budgetary constraints, which hinders full exploitation of the bankruptcy system. This is because the state is the sole owner of enterprise capital, so that the enterprise's corporate property is still one and the same with the state's property, and the state still bears full or unlimited responsibility for enterprise bankruptcy, with the enterprise in fact still not taking any operating risk or adequate pressure. Third, since the state acts as the public's representative and its superstructure, it generally finds it difficult when managing enterprises to make maximizing profits its goal and is constrained by many other noneconomic factors, so that the state's restraints on the contractor's property are weak, or elastic, rather than rigid. Fourth, an important feature of the capital-management responsibility system is that the state's management departments assess the management of the capital contractor, which implies that the state's capital management personnel must behave rationally and scientifically. In reality, however, because there is no direct link between the personal interests of officials in the capital management departments and how enterprises are run, their behavior is highly subjective, capricious, and imprecise. This means that when the state's departments select enterprise contractors and set contract conditions they often enrich themselves at public expense, haggle over prices, feign compliance, and engage in other activities harmful to the state's interests. In addition, how to make staff and workers their own masters and mobilize their enthusiasm while at the same time being

concerned with the responsibilities and interests of contractors is a problem that needs to be studied and resolved.

The second approach is the joint-stock system. This approach holds that if the economic cells of a socialist commodity economy are to be reconstructed, most whole-people enterprises will have to institute the joint-stock system. This system would make it possible to thoroughly reorganize the property relationships of the traditional state ownership system, create mechanisms for self-restraint and self-balance within enterprises, and improve enterprise behavior, thereby laying a foundation for pushing reform of the enterprise leadership system.

When this approach was proposed, it elicited a strong reaction all around the country, with some approving it and others rejecting it; a fierce dispute was generated in economic circles. We believe that the joint-stock company is the most common form of organization of enterprise property in modern, developed commodity economies, and it is also appropriate for socialist economies. Introduction of the joint-stock system by state enterprises would be characterized by the following: 1) As the joint-stock system changes the principal owner of enterprise property from the state alone to diversified ownership, it forcefully counters unreasonable administrative interference by the state and makes it easier to achieve separation of the "two authorities." In practice, diversification of principal ownership of property and the thoroughness of the separation of the "two authorities" are interrelated and interdependent; with the state as sole principal owner, it is difficult to separate the "two authorities." 2) The joint-stock system makes it possible to separate ultimate enterprise ownership and corporate ownership, so that the enterprise has its own independent property, which sets the stage for the enterprise to take responsibility for profit and loss and for instituting the bankruptcy system. 3) The joint-stock system promotes free circulation of capital and encourages the optimum deployment of social resources. It makes it possible to promote lateral integration among enterprises and improves the industrial structure.

However, given China's current situation, implementation of the joint-stock system for enterprises involves the following problems: 1) Although this system would promote the lateral circulation of capital, the incompleteness of macrocontrol mechanisms would make it easy for the scale and direction of state investment in enterprises to get out of control. 2) Typically, the joint-stock system involves publicly issuing shares; with some people increasing their income through the dividends on the shares they hold, a stratum of profit-takers is unavoidably created, which affects the unity of staff and workers. At the same time, the role and consequences of stock trading in a socialist economy need to be studied carefully. Therefore, the socioeconomic and psychological burden of this system should also be considered. 3) If improperly handled, implementation of the joint-stock system before a market system has been put in place and while internal enterprise conditions remain uncertain would simply turn into a new way for enterprises to issue bonuses indiscriminately. Whether large enterprises could implement the joint-stock system involves several other complex issues. In short, since the joint-stock system is associated with a highly developed stage of the commodity economy, the internal conditions it requires are



relatively complex; therefore, broad implementation of this system in China at present is really not feasible. It can be experimented with in collective enterprises or in a few medium and small enterprises. In future, as the market system is perfected and certain other conditions are met, the joint-stock system could again become a direction for reform.

The third approach involves changing the current state ownership system to an enterprise ownership system (i.e., changing the ownership system, not just acknowledging certain property rights of the enterprise). With the exception of a few large, key enterprises crucial to state plans and the people's livelihood, which would remain under state ownership, under this approach most other large state enterprises under the whole-people system would have the ownership of the means of production converted from state ownership to enterprise ownership by means of a series of reform measures, so as to unify ownership authority and management authority within the enterprise, thereby truly establishing the enterprise's position as an autonomously operating commodity producer taking responsibility for profit and loss.

The characteristic of this approach are that it stresses that reform of whole-people enterprises is inadequate to separate the "two authorities," and that reforms should be carried out in the ownership system. Theoretically, this view begins with the theory of a planned commodity economy; rather than a highly centralized state ownership system adapted to a product economy that forms its foundation, it is believed that the enterprise ownership system is the optimum form of public ownership suited to the development of a socialist commodity economy. In practice, there is currently no concrete example of this approach in China.

As for how the enterprise ownership system is to be evaluated, we believe that turning state ownership into enterprise ownership would not only turn the enterprise into an operator but also into a property owner; as for establishing the enterprise's position as a socialist commodity producer and operator, achieving a true separation of government and enterprise function, severing enterprise reliance and dependency on the state, and reinforcing budgetary restraints on the enterprise, this approach would no doubt have a significant impact. According to Yugoslavia's experience, however, this approach also involves several problems. 1) Abstract enterprise ownership does not solve the problem of a personalized representative for multiplying enterprise capital, and it may lead enterprise leaders and staff and workers to seek to maximize their short-term profits. Second, as the enterprise ownership system takes shape, disparities in property holdings among enterprises will necessarily increase, which may lead to inequalities in profits among different enterprises and staff and workers; this in turn will cause invidious comparisons of income levels among different enterprises and lead to swollen consumption funds, and eventually to inflation. Third, the intension of this concept of enterprise ownership is not entirely scientific. This is because, in principle, property is owned by staff and workers; if each transferring or retiring worker in the enterprise is able to walk off with his own share of the assets, then this is really individual ownership. If no one is able to walk off with the assets, then newly arriving workers will be able to share in their predecessors' accumulation, and all workers will have equal property rights; this is clearly not enterprise ownership, but social

ownership. Fourth, a system of ownership entirely by enterprises would hinder the state's macrocontrol and would have an impact on economic forces in general, which could easily lead to a lack of control. Experience has shown that there are many problems with this.

Practice has shown that this approach is far removed from the property relationships of existing whole-people enterprises and not easily adapted to them. If this were not handled properly, it could lead to serious social upheaval.

We believe that not introducing the enterprise ownership system but rather putting forth a concept that acknowledges that enterprises have certain property rights is better suited to a commodity economy and will make it possible to lessen administrative meddling and strengthen financial restraints; emphasizing the direct integration of workers and the means of production in an enterprise will make those workers true masters of the enterprise and will turn the enterprise into an economic entity that takes genuine responsibility for profit and loss, which will provide a real incentive for people. This represents a step forward over the approach of merely introducing a management responsibility system and facilitates gradually clarifying the property relationships in the state ownership system; overall, it more closely links the interests and responsibilities of the enterprise and all its staff and workers, giving the state-owned economy a more concrete and ample intension that conforms to the actual economic relationships between the state and enterprise, and it is more feasible. However, the approach should be formulated more concretely in relation to specific examples of practice.

Incidentally, in investigating reform of the state ownership system, some people also proposed "equal sharing of state assets" (or a similar sharing) and "privatization." They suggest that property owned by the whole people or by the state be divided equally among workers or citizens; this would then be voluntarily recombined to form new, publicly owned enterprise entities; or they suggest that, under a joint-stock system, equal "legal shares" be given to workers, which could circulate with workers or be inherited, and so on. Not many people approve of these approaches, and they have not elicited debate. We believe that the basic premise behind these suggestions is incorrect; not only do they not accord with the requirements of socialized property relationships and the substance of reform, but they would also cause economic chaos and social upheaval, and are therefore unacceptable.

#### C. Problems Requiring Further Study

A survey of activity in the reform of state enterprises yields a plethora of questions and lines of thinking, and it is difficult to discuss them all in one article. Although the main approaches described above offer new thinking and achieve some progress in adjusting to the running and development of a socialist commodity economy, it should be recognized that research in this field is still in its initial stages. Useful ideas have been advanced, some of which have just been brought up and some of which are still being developed; hence, reform of state enterprises involves the broad topic of reforming the nature and intension of ownership and requires further study and discussion.

We believe that study should focus on at least the following issues, given our current debate:

1. If the state's property rights over enterprises are not changed, will it be possible to achieve a true separation of ownership authority and management authority and differentiate the functions of government and enterprise? At present, some comrades in theoretical circles believe that separating the "two authorities" while maintaining the basic framework of the original state ownership system will make it possible to solve the problem of enterprise management authority and will give enterprises maximum vigor. This view is often validated by pointing to the common separation of these two authorities in capitalist societies. However, many people also believe that reform experience has repeatedly demonstrated that it is difficult to separate ownership from management authority and government from enterprise so long as the traditional property relationships of state enterprises persist. Therefore, whether separating the two authorities is a measure in the reform stage or is the target model is a question that merits intensive study. It should be noted here that it is unfortunately impossible to simply equate the relationship between a socialist state and its enterprises with the relationship between capitalist owners and operators in a capitalist society since, under capitalist conditions, both owners and operators are commodity producers and "economic persons" whose goal is the pursuit of profit, whereas a socialist state is first of all a political organization with multiple goals (political, economic, social); the relationship between a socialist state and its enterprises is extremely complex. There are two questions to be considered here: 1) Whether the problem of enterprise operating autonomy can be divorced from that of separation of ownership; 2) What are the best means of achieving separation of the "two authorities" if ownership is left unchanged?

2. Whether a public joint-stock company formed on the basis of a socialist system of public ownership can be operated as efficiently as a Western joint-stock company is also a question that we should study more fully. This is because the Western joint-stock system is established on the basis of private ownership. Its core characteristic is the personalization of capital; the completion and multiplication of an enterprise's capital are closely related to the economic interests of the capital's owner. In this way, a strong desire to multiply their capital motivates the owners to watch over and be concerned with the operating results of the enterprise. In addition, to a certain extent free trading and speculation in stocks by the owners achieves a rational deployment of resources and improves the efficiency of their use. In the public joint-stock companies we are discussing here, however, the principal stockholders are the state and enterprise consortiums (privately held stocks do not play a dominant role); therefore, how to ensure that public joint-stock companies lacking any basis in personalized capital can be operated fairly efficiently is a thorny question. Failure to handle this properly would mean a change in form but not in substance, and it would not solve the defects of the old system. In addition, the planned nature of a socialist commodity economy also means that resources cannot and must not be rationally deployed through free trade and speculation in stocks. More satisfactory answers must be found for these questions.

3. Some of the current approaches to reform attempt to stabilize enterprise behavior and strengthen enterprise vigor by strengthening the operating responsibility and property restraints on operators. This is undoubtedly necessary, but in a socialist enterprise the workers are the masters, and the enthusiasm of the masses of workers is the never-exhausted spring of socialist enterprise vigor. Therefore, how to better mobilize the enthusiasm of the masses of staff and workers while at the same time strengthening operator responsibility and mobilizing operator enthusiasm is also a question worth probing. In addition to a mechanism for rational distribution, the mutually conditioning questions of a plant manager responsibility system and democratic management also require practicable, in-depth study.

13322

CSO: 4006/748

## GUANGMING RIBAO ARTICLE ON CONTRACT SYSTEM

HK140622 Beijing GUANGMING RIBAO in Chinese 1 Aug 87 p 3

[Article by Zhou Guanwu (0719 0385 0063): "On the Contract System"--first paragraph is GUANGMING RIBAO introduction]

[Text] The contract system is a great creation of the Chinese people. The implementation of the output-related contract responsibility system has brought about a fundamental change in the backward situation in the rural areas. The introduction of the contract system to the urban areas has led to large-scale development of industrial production. The contract system is displaying its great impetus. How can the contract system bring into full play the initiative of the staff and workers of enterprises and produce high efficiency? This article will attempt to make a theoretical exploration in this respect.

The Contract System Can Reflect the Unification of Public Ownership and the Commodity Economy

The fundamental characteristic of the socialist economy is public ownership. Developing the commodity economy while adhering to socialism is a difficult point in economic reform and is also the crux of whether economic reform will be a success. Judging from the practice of the Shoudu Iron and Steel Company and other enterprises exercising the contract system, the contract system is an effective method for unifying public ownership and the commodity economy.

The contract system is a manifestation of ownership by the whole people. Viewed from the history of the development of human society, owners have always been responsibility assumers. For example, in terms of individual laborers, laborers are both owners and responsibility assumers. Therefore, they have a high degree of initiative in work. Under capitalist private ownership, laborers are not owners, so capitalists have formed a strict responsibility system according to the division of work. But this responsibility system is divorced from ownership. Therefore, workers do not have initiative in their work.

With the establishment of the socialist system, class antagonism has been eliminated, so the unification of laborers and owners should be restored. But this unification should not be formed on the basis of small-scale production and private ownership but on the basis of large-scale production and public

ownership. On the one hand, large-scale production requires a strict responsibility system; on the other, this responsibility system should be able to reflect the position of laborers as the owners of the means of production under public ownership. Under socialist public ownership, owners should also be responsibility assumers. This is more difficult and complicated than eliminating private ownership. Socialist ownership by the whole people should be characterized by ownership by the whole people and responsibility of the whole people. But with regard to an enterprise under the ownership by the whole people, it is impossible for the 1 billion people to operate and assume responsibility for it. Therefore, we have introduced the form of state ownership with state organs exercising direct management of enterprises on behalf of the whole people. As a result, it is impossible for a state organ, no matter how large it is, to unify the activities of tens of thousands of enterprises or to assume responsibility for the development of the economy under the ownership by the whole people. In addition, with uniform management by state organs, enterprises are not economic bodies and cannot assume responsibility for the whole people. Thus, a situation has emerged in which enterprises are owned by the whole people but none of these people is responsible for these enterprises. Hence the separation of ownership from responsibility.

The contract system is the combination of the ownership by the whole people with the responsibility system. The working class is the subject of the ownership by the whole people. Workers are both laborers and owners of enterprises. As the object of the ownership by the whole people, the means of production are also in enterprises. The contract system has combined the subject and object into a productive force. Thus, enterprises under the ownership by the whole can assume responsibility for the whole people. This responsibility system manifests itself in enterprises' delivery of profits and their profit retention for the purpose of increasing fixed assets and producing more wealth for the whole people. This has integrated the ownership by the whole people with the responsibility system and allowed the ownership by the whole people to fully display its role.

The contract system has also helped promote the development of the commodity economy apart from bringing into play the role of ownership by the whole people. The contract system is aimed at ensuring the delivery of profits. To ensure the delivery of profits, enterprises are bound to seek the greatest profits. This involves the realization of value. Therefore, enterprises must abide by the law of value and realize the value of their commodities through the market. This contract system will speed up the transformation of enterprises from product producers into commodity producers. With this system, enterprises will improve their ability of self-accumulation and be able to provide more commodities for society, to break the separation of departments from regions, to carry out lateral combination between different trades and regions, and to stimulate the formation of a uniform socialist market.

In the socialist commodity economy, apart from persisting in the ownership by the whole people, enterprises should become independent commodity producers who possess their own economic interests. Therefore, the unification of social interests with enterprises' interests is an important symbol differentiating

the socialist commodity economy from the capitalist commodity economy. Under the contract system, only when the staff and workers of enterprises ensure social interests, can they have their own interests. This system has enabled the state, the enterprise, and the individual to increase their interests on the basis of the improvement of the economic results of the enterprise.

Another important factor distinguishing the socialist commodity economy from the capitalist commodity economy is distribution according to work. Under the socialist system, laborers are the masters of the means of production. The economic results of enterprises, which are produced by the staff and workers of enterprises, should, naturally, be taken as the basis for distribution. If the income of the staff and workers of enterprises is not linked with the economic results of enterprises, it is inevitable that the practice of "everybody eating from the same big pot" will reappear. If the income of the staff and workers is decided according to the price in the labor force market, this in fact is regarding the labor force as a commodity. The contract system has provided the possibility of more retention from more production. In the first place, distribution is carried out among the workers according to the overall economic results of enterprises. Then distribution is carried out among the staff and workers according to everyone's contribution. This will encourage the staff and workers to do their best in their work.

#### The Contract System Is Beneficial to Forming a Rational Mechanism for Enterprises

The contract system includes two aspects: One is realizing the combination of the ownership by the whole people with the responsibility system and the other is implementing the responsibility system in various specialized units and departments. This contract system, which is implemented in connection with the socialist ownership by the whole people, has its own characteristics both in content and form.

1. The contract system must be able to ensure a gradual annual increase in economic results. The economic results of enterprises manifest themselves in their profits. The responsibility assumed for the whole people by enterprises under the ownership by the whole people is reflected in the increase in products, the improvement of quality, the increase in the variety of products, and the increase in profits.
2. The contract system must be all-embracing. What is undertaken by contract must include increasing funds, assuming responsibility for society, bringing enterprises' resources into play, and effectively controlling environmental pollution.
3. The targets contracted for must reflect immediate and long-term targets. The term of contract must not be too short. A minimum of 5 years is preferable so as to allow enterprises to draw up their long-term development plans.
4. Apart from contracting for economic and technological targets, it is necessary to contract for the vocational work of enterprises. In its formulation, fulfillment, supervision, and assessment, no economic or technological

target is not related with vocational management. Without contracting for the exercising of vocational management, it is difficult to ensure the fulfillment of targets. Contracting for the exercising of vocational management includes contracting for the formulation of standards and procedures, the assumption of responsibility, and the carrying out of cooperation and assessment.

5. The staff and workers of enterprises constitute the main body that undertakes enterprises' jobs by contract. Socialist construction is the cause of the masses. Contracting for enterprises' jobs means that the staff and workers of enterprises assume by contract the duties and responsibility they have for the entire society and people. The contract system should not be an individual contract system of a factory director. The operators of enterprises are the entire staff and workers of enterprises and not just one factory director. Allowing the entire staff and workers of enterprises to contract for jobs will bring into play their initiative in work.

These five aspects of the contract system focus on the unification of the immediate and long-term interests of the state, the enterprise, and the individual. The contract system embraces the vitality of enterprises' mechanism. In the Shoudu steel and iron factory, the role of the contract system has manifested itself in the following figures: The profits it delivers have increased at an annual rate of 7.2 percent; the profits it realizes have increased at an annual rate of 20 percent; in the profits retained by the factory, the ratio between the production development fund, the collective welfare fund, and the salary and bonus fund is 6:2:2; and the ratio between the total amount of wages and the profits realized is 0:8:1. These figures indicate the relationship between the immediate and long-term interests of the state, the enterprise, and the individual. Improper handling of this relationship will disrupt the mechanism inherent in the contract system. The state will not be able to maintain its long-term interests if it does not leave at least 7.2 percent of the profits to the factory. The factory should handle well the relationship between accumulation and consumption so as to keep its staying power for development. In the ratio of 6:2:2, with the "6," the absolute value of the two "2's" that follow will become smaller and smaller. Without immediate interests, staff members and workers will lose sight of their long-term interests, and in such cases, they cannot bring their initiative into play. But without a plan to ensure their long-term interests, they cannot maintain their initiative for long either.

#### The Contract System Is a Basic System of Socialist Management

Apart from being a basic method for organizing large-scale socialized production, the contract system should also be a basic system of socialist management.

We should devote major efforts to developing the socialist commodity economy, with the aim of invigorating enterprises, as most of the large and medium-sized enterprises under the ownership by the whole people have not been enlivened. How should we invigorate these enterprises and enable them to assume responsibility for the whole people? The contract system is the method.



With the implementation of the contract system, these enterprises will really assume economic responsibility for the whole people, unlike the administrative responsibility previously assumed by the state departments concerned. In the past, enterprises were responsible to the state, but it was impossible for the state to regulate the activities of tens of thousands of enterprises according to the changes in social supply and demand. As a result, enterprises were divorced from social demand and could not conscientiously assume responsibility for the whole people. With the implementation of the contract system, enterprises can assume economic responsibility for the whole people. They take the initiative in showing concern for and adapting themselves to the changes in social demand and take part in regulating the national economy. If enterprises stick to "producing the same products for several decades" in disregard of the changes in social demand and allow their equipment and technologies to remain backward, do not carry forward their production, and make investments blindly, the first to suffer are the staff and workers of enterprises. On the contrary, if enterprises can take account of the need for the coordinated development of the national economy, draw up correct decisions, adjust their product mix and investment orientation, open up new production spheres and keep producing wealth for society, the staff and workers of enterprises will have more material benefit to enjoy. This is called assuming responsibility for the whole people.

With the implementation of the contract system, the staff and workers of enterprises will, in the capacity of the owners of the means of production under the ownership by whole people, assume responsibility for the people's congress and pay their taxes according to rules and regulations. On this condition, mandated by the whole people, the staff and workers of enterprises will carry out independent operation and management of enterprises, including expanding reproduction. This autonomy will not be interfered with by external factors, with the exception of the decisions made by the people's congress according to law. After delivering the required amount of profits, enterprises can retain the remaining portion, no matter how much it is. Enterprises have the right to carry out self-accumulation, self-transformation, and self-development, to improve the material and cultural life of their staff and workers, and to allow their staff and workers to elect the leaders of enterprises. In this way, the productive forces of enterprises will be brought into full play and the staff and workers of enterprises will display their initiative and wisdom fully because they really feel that they are not only the masters of enterprises but also the masters of the country. In this sense, the contract system represents democracy both in the economic and political fields.

To fully exercise the ownership and responsibility system by whole people, it is not adequate just to allow enterprises to assume responsibility for society and the whole people. As part of the superstructure, state organs should also assume responsibility for the whole people. State organs and enterprises are a part of the whole people with different division of work. It is inappropriate to assume that enterprises represent the locality and that state organs represent the entity. In fact, state organs are also divided into different departments. Various departments of state organs should also assume responsibility for the whole people and carry out by contract the duties shared among them. If every unit, every department, every enterprise, and every individual shares their effort in exercising the contract system in the entire society, the contract system will certainly become a basic system of socialist management.

## PRC OFFICIAL ON ENTERPRISE CONTRACT SYSTEM

HK131021 Beijing RENMIN RIBAO in Chinese 7 Aug 87 p 2

[Dispatch by reporter Dai Yuqing (2071 3768 1987): "State Economic Commission's Youth Economic Research Group Leader Interviewed on the Significance of Contract Responsibility System"]

[Text] Recently, in a simply equipped office building of the State Economic Commission, this reporter had an interview with Comrade Ren Kelei [0117 0344 7191], leader of the youth economic research group of the State Economic Commission and deputy director of the commission's investigation and study office. This group was established little more than a year ago, but its achievements have attracted a lot of attention. In April this year, the leading comrades of the State Council read an investigation report by this group, entitled "An Investigation of the Question of Deepening Enterprise Reform," holding that it was a good article which had made an all-round analysis of the contract responsibility system adopted by the enterprises.

Reporter: Over the past few months, the contract management responsibility system has become a popular topic in discussions on deepening enterprise reform. As far as I remember, the "contract" system was also a hot topic around 1982 but was not so much encouraged later. Would you please explain the reasons for this?

Ren Kelei: Beginning 1979, it was decided that invigorating the enterprises would be the first step for China's reform of the economic structure. Then experiments on expanding the decisionmaking power of enterprises were first carried out in Sichuan Province, which changed the traditional practice of state monopoly of revenue and expenditure of enterprises. After that, some other methods, such as enterprise foundation, enterprise retention of profits, and enterprises assuming full responsibility for profits and losses, were adopted on a trial basis. Finally, it was decided that the method of substituting taxes for delivery of profits be taken as a basic form for handling relations between the state and the enterprises in distribution.

In the course of this reform, the people's understanding of the contract system was also gradually deepened. At first, some comrades thought that the contract method was only a temporary measure, because although "contract" was conducive

to tapping the potential of the enterprises, the enterprises would probably get the "larger portion" of any new profits earned and the state would thus suffer losses. For this reason, after substituting taxes for delivery of profits, the contract management responsibility system did not appear to be emphasized for some time.

Reporter: Will the contract system harm the state's financial interests?

Ren Kelei: The two steps of reform to substitute taxes for delivery of profits was a step forward in handling the relations between the state and the enterprise in distribution by means of tax revenue, which played an important role in helping the state collect wealth. However, due to the imbalance in China's economic development and the problems of the price system, there were great differences between various trades and various areas in their profit-earning ability. At present, the uniformity in tax categories and tax rates will not suit the situation in which the enterprises differ from one another in thousands of ways. The role of regulatory tax in this field is also quite limited. It also has a fairly large negative role. Also, compared with many countries and regions, China's income tax rate is quite high. This rate is 33 percent in the United States, 35 percent in England, 50 percent in West Germany, and 18.5 percent in Hong Kong, but it is 55 percent in our country. Moreover, in China, no matter how high the growth rate is, the tax rate is unchanged. Therefore, it is difficult to mobilize the initiative of enterprises.

Practice shows that at present, when handling distributive relations between the state and the enterprise merely by means of tax revenue, there are still some negative factors obstructing the work of deepening enterprise reform. If we overemphasize the state getting the large portion of profits, the enterprises will have to turn over to the state most of the profits they have earned through their efforts to promote production and increase economic returns. Thus, the phenomenon of "more labor less gain" may reappear. In particular, in those large and medium key enterprises, which were doing very well in the past but need to be transformed due to serious aging, the enthusiasm of the staff and workers will be dampened as a result of "whipping the quick ox." This will be harmful to tapping the potentials of enterprises and strengthening their staying power, and it will be impossible to establish a sound foundation for the state's revenue.

Reporter: To stimulate the enterprises through implementing the contract system so that they can tap more potential and "work more and gain more" and so that the state can have a viable source of revenue--is this the significance of the contract management responsibility system?

Ren Kelei: This is only one aspect of things. A more important aspect is that through contracting, the ownership and management of the enterprises can be more easily separated. This is an effective channel for deepening reform of the management mechanism of enterprises.

How do we change the low efficiency, high consumption, weak sense of responsibility, and overstaffing in the enterprises under the public ownership? What shall we do to arouse the enthusiasm of the staff and workers in production? These are important subjects for study in the current reform. Some comrades say that in the capitalist countries, there are three main internal motive powers in the enterprises: the private ownership, the equal profit rate of investment, and the role played by the market competition mechanism. In China, since we cannot adopt the private ownership of the means of production and since it takes time to realize equal profit rate of investment and exploit the role of the market competition mechanism, what is the way out for us? We should admit that adopting the contract system in the enterprises and separating the two powers from each other is a good method. After the enterprises have turned over to the state a reasonable portion of their profits according to contract, all the profits belong to the enterprises and their staff and workers. The harder they work and the greater the potential tapped, the more they will get and the better the life of their staff and workers will be. Thus, a benign cycle will be gradually shaped.

Reporter: Do you think the contract management responsibility system is merely a transitional stage in the reform or has it a more far-reaching significance?

Ren Kelei: In China's rural areas, the system of contracted responsibilities with payment linked to output was first adopted by a small number of poor and backward villages. As a result, the long-suppressed productive forces in the countryside were emancipated. Likewise, the contract management responsibility system, which emerged in some enterprises in 1982, was not designed by theorists or invented by any state departments in charge of economic affairs, but was created by the masses with their pioneering spirit and in their practice of reform. The contract system has brought about enormous economic returns. In our country, the contract system has been adopted in both agricultural and industrial production. This is not a coincidence but has a far-reaching significance.

The successful implementation of the contract responsibility system tells us that it is groundless to attribute all faults to the system of public ownership. To give play to the initiative of the enterprises under the public ownership system, it is necessary to establish a kind of benefit mechanism. To solve this problem, we cannot just expect the state to reduce tax and let enterprises retain more profits. If we implement the contract management responsibility system and take it as a breach in enterprise reform, we will be able to push the reform forward without asking the state for help.

This is because when implementing the contract system, the relations between the state and the enterprises are fixed in the form of a contract. Since economic power and responsibility are clarified, the improper interference of the state in enterprise business can be effectively overcome, the sense of responsibility of the enterprises can be enhanced, and the decisionmaking power of the enterprises can be ensured. Thus, conditions will be created to gradually change the enterprises into commodity producers and managers which carry out management independently and assume full responsibility for their

profits and losses. What is more important, after implementing the contract system, the enterprises will become a medium linking the interests of both the state and the workers. In this way, we can discover how to develop our national economy on the basis of showing concern for the people's personal interests under the socialist condition. Now it seems that the significance of the contract system is even greater than we expected. It can be said that although certain concrete forms of the contract system may be transitional measures, being a general principle of the socialist economy, the contract system is a way to mobilize the initiative of the workers under the socialist condition.

Reporter: Recently I learned from a special report that two well-known economists held that if we adopt the contract system, the state may possibly suffer more losses because when determining the basic quota for the contract, "the central authorities will not be able to bargain with the local authorities and the local authorities will not be able to bargain with the enterprises." What is your opinion on this problem?

Ren Kelei: The key lies in how to introduce the competition mechanism to the contract management responsibility system. In the past, when determining the basic quota for contract, we did not try the method of inviting bids. Instead, the relevant department in charge would usually tender a higher basic quota for the contract and the enterprise would tender a lower quota, and both would enter into endless bargaining. Of course, it was the factory director or manager who knew most about the potential of his enterprise." After practicing the system of inviting tenders in determining the basic quota for the contract and inviting applications for plant directors, that is, after introducing the competition mechanism, those who wish to contract the production will not give false figures and try to force down the basic quota. The new plant directors and managers will be able to increase their abilities rapidly. In this way, the current cadre and personnel system will naturally be changed, which will be conducive to solving the problems concerning the benefits for enterprise managers and officialdom among the cadres.

Reporter: After adopting the contract system, will the enterprises increase their "economic returns" by means of indiscriminately raising prices, which will harm the interests of consumers?

Ren Kelei: This is a question of "two difficulties." Since the price system has still not been improved, the incomes of various contract enterprises vary from one to another. Some enterprises have benefited from high prices and earned high incomes without making much effort, but some others are in just the opposite situation. In overcoming this defect, any immediate relaxation of the price system may result in indiscriminate price rises and bring about serious social and political problems, which would be difficult to control. Therefore, the contract system and price reform cannot be carried out in an isolated way; on the other hand, there should be certain major tasks for each period. At present, the main task is to carry out reform of the management mechanism in enterprises. We must not be overhasty in reform of the price system. At present, many contract enterprises are faced with the following main problems: Due to the indiscriminate increase of the prices of the means

of production, their production costs have been increased while their profits have been reduced. If this problem is not solved, the result will certainly be that either the enterprises will have to demand revision of the contract and reduction of the set basic production quota due to the rise in the prices of raw materials or they will be forced to raise the prices of their products as well. To avoid the phenomenon of enterprises taking turns to increase prices, it is necessary to strictly control those enterprises which are producing products in short supply and to strengthen supervision over those enterprises which are in a monopoly position and have high production outputs. The products of those enterprises can be likened to "the daughter of an emperor who never worries about getting married." Once their prices rise, the situation will be difficult to control.

Reporter: After adopting the contract system, will the phenomenon of shortsightedness of enterprise behavior (meaning, earning as much money as possible at present to the neglect of the long-term development of the enterprise) appear? Will the enterprises inappropriately distribute their profits among the staff and workers?

Ren Kelei: We must make an analysis of the shortsightedness of enterprise behavior. An important reason is that in the past, our policy often changed. For example, though it was said that the contract would not be changed for several years once it was signed, it was then changed within 6 months. Thus, the enterprises had no alternative but to spend more money to meet the sudden changes in policy. They were having to spend their funds on consumption rather than on accumulation. This is a profound lesson. Now the State Council has made it clear that the contract management responsibility system is a major policy of our country. With longer contract terms, it is conducive to the long-term development of the enterprises. Accumulation will be increased to promote technological transformation of the enterprises. Practice shows that with a stable policy, many large and medium enterprises, which have retained their contracts unchanged for several years, have all handled the relations between accumulation and consumption very well.

Reporter: Thank you.

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CSO: 4006/880

## WEN WEI PO ON URGENCY OF SOLVING PRICE ISSUE

HK250800 Hong Kong WEN WEI PO in Chinese 25 Aug 87 p 3

["Special dispatch from Beijing" by correspondent Liu Jui-shao (0491 6904 4801): "The Beidaihe Meeting and the Price Issue"]

[Text] Beijing, 24 Aug--In a talk the other day, Yuan Mu, a spokesman for the State Council, noted the urgency of keeping prices under control and put forward ways to solve this issue. At the beginning of this year, prices were fairly stable for a time but they started to rise markedly again in April. By June, the price hikes were 7.8 percent. The leading echelon holds that the issue should be solved immediately because, first, the people have reacted strongly and, if the prices are not kept under control, the market will get out of control; second, the price issue will directly or indirectly affect the stability of the political situation.

The student unrest that occurred earlier this year did not touch on price issue and so the stable overall situation was preserved. However, at the Beidaihe high-level meeting held some time ago, the price hikes and the state's financial difficulties became two prominent topics of conversation. Some held that they were caused by the failure to properly grasp the planned economy and some even held that they were the result of opening up the market and the economy.

It has been disclosed by the relevant sources that the leaders of the State Council are also deeply aware of the importance, complexity, and difficulty of controlling prices, including how to solve the relationship between supply and demand, how to implement the price policy, and how to solve the problems of legislation and the emerging market forces. Earlier, when speaking with Lu Dong, minister of the State Economic Commission, and Li Zongling, a cadre from the Beijing Municipal Structural Reform Commission, about economic structure, Premier Zhao raised the questions of prices and "speculators" and asked whether it was possible to control the prices of commodities in short supply. He also wondered whether it was possible to experiment on price controls in Beijing and to work out some measures. At that time, the Beidaihe meeting was in session and market prices rose so menacingly that working out a method for solution became a task that brooked no delay.

The price hikes seem to be the inevitable outcome of the reform of the price structure. The crux of the matter lies in how to strengthen management, supervision, regulation and control so that the actual living standards as a whole will not drop. It is necessary to relax controls on prices and to manage them.

Therefore, in this talk the other day, Yuan Mu also followed this principle. It is necessary to adhere to the general principle laid down by the State Council earlier this year, to give top priority to "persisting in reform" and, while keeping prices under control, to continuously encourage self-employed industrial and commercial households to engage in legitimate business operations and protect their legitimate rights and interests. Today's JINGJI CANKAO also pointed out that relaxing controls, invigorating the economy, and strengthening management complement one another.

It has been learned that, in an attempt to stabilize prices as quickly as possible, in addition to instructing Yuan Mu to issue five measures, which were released yesterday, the State Council will also promulgate a "Circular on Consolidating Market Order and Strengthening Price Management," laying down a series of penalty measures, which include confiscating all the illegal income of the law breakers and imposing heavy fines on them.

At the Beidaihe meeting, the Chinese leading echelon reportedly decided and reaffirmed that the keynote of reform and opening up at the 13th Party Congress would remain unchanged, that the price reform and economic reform would still be continuously deepened in the future, that the contract system would be launched in an all-round way in large, medium, and small enterprises, and that the leasing system and the joint-stock system would gradually be popularized in medium and small enterprises (the joint-stock system will be implemented a little more slowly). A central leader was quoted as saying: "The government will institute a civil official system and the enterprises will institute the competitive-bidding system." The government should be separated from the enterprises; the remuneration of entrepreneurs should be higher than that of administrative officials. This will be the direction of future development.

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CSO: 4006/880



## GUANGDONG LAND REGULATIONS PROTECT RIGHTS OF OVERSEAS CHINESE

Guangzhou GUANGDONG QIAOBAO in Chinese 18 Mar 87 p 1

[Article by the Overseas Chinese Committee of the Guangdong Province People's Congress: "We Must Guarantee the State's Ability to Requisition Land and Protect the Legitimate Interests of the Overseas Chinese; Publication and Implementation of the Relevant Laws and Regulations Passed by the Guangdong Province People's Congress"]

[Text] The 25th session of the standing committee of the 6th Guangdong Province People's Congress on 7 March 1987 passed "Regulations on the Requisition of Land Owned by Urban Overseas Chinese for Construction by Guangdong Province or the State."

The guiding principle of this "Regulation" is to assure the needs of the state to requisition land while protecting the legitimate rights and interests of Overseas Chinese, protect the rights and interests of returned Overseas Chinese and of the relatives of Overseas Chinese, and to handle humanely the problem of tearing down the homes of Overseas Chinese in the course of taking land. This "Regulation" clearly addresses the problems listed below.

1. Clearly defines what the needs of the state to take land for construction: "State construction items which have been approved by the state or by a people's government at the county level or higher, entered into the final state and local capital investment plan or a state item for which construction has been approved." It stipulates that no person or unit may illegally tear down the home of an Overseas Chinese and occupy the land of his residence. Violators of this regulation must pay compensation to the owner and the owner can sue in People's Court.
2. Clearly defines the compensation which should be paid for requisitioning land and tearing down the houses of Overseas Chinese: the unit building on the land of an Overseas Chinese where permission has been given to requisition the land and tear down the house shall give reasonable compensation to the Overseas Chinese. If the owner of the house requests that a house be built for him in compensation, then a new house of comparable construction, floor space and quality shall be built for the owner. Requests by the owner for monetary compensation should be passed on by the housing department of a county level people's government according to the quality, construction, floor space, the

adjacent garden and the living facilities. The compensation should be set at the cost of constructing a new house plus moving costs and should be paid by the unit doing the construction.

3. Stipulates on requisitioning and tearing down buildings on land let out by Overseas Chinese: all requisitions of land and removal of buildings owned by Overseas Chinese, and of persons who rented from them, shall be handled by the unit doing the construction, or by discussions between the unit doing the construction and the unit of the person who is renting.

Moreover, this "Regulation" clearly states in what situations it is applicable. This "Regulation" applies to the requisitioning of land and the removal of buildings legally and privately owned by returned Overseas Chinese, to private housing built after the founding of the PRC by remittances by Overseas Chinese, private housing which has been legally inherited from Overseas Chinese, as well as to the requisitioning of land and the removal of houses owned by Hong Kong and Macao compatriots, and to the legitimate privately owned housing of Taiwan compatriots.

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CSO: 4006/715

## PRICING REFORMS DISCUSSED

Nanchang JIAGE YUEKAN [PRICING MONTHLY] in Chinese No 3, 15 Mar 87 pp 3-5

[Article by Lai Houshu [6351 0683 2885]: "We Must Proceed Cautiously in Price Reform"]

[Text] In view of the overall situation and the current and short-term status of China's economic development and reform, price restructuring during the Seventh 5-Year Plan must proceed very cautiously and not advance too fast.

I. Historical Experience Demonstrates That it Is Correct to Proceed Cautiously

Under the correct leadership of the CPC Central Committee and the State Council since the 3d Plenum of the 11th CPC Central Committee and following the reform of our economic administration, we have carried out planned, step-by-step restructuring of China's price and price management systems. During this process, we have carried out six major readjustments, each of which was implemented in accordance with current social, economic and market conditions, after careful consideration of all the advantages and disadvantages in various areas, and through careful planning and deployment. The following are some examples of these major readjustments.

In 1979, prices for grain, cotton, oil-crop and other agricultural and sideline goods were very low--even lower than production costs in some regions, and the distribution system for these products was irrational. These conditions were so serious that peasants were unenthusiastic about growing these crops and thus agricultural production stagnated. Each year, the state had to pay out large amounts of foreign exchange to import grain and cotton. To change this state of affairs, the CPC Central Committee and the State Council decided to make large boosts in the prices paid to procure 18 agricultural and sideline goods. Of these goods, grain and cotton were granted an additional 50 percent surcharge for all sales exceeding planned quotas. After the readjustment, the list-price indices for these goods rose an average of 22.1 percent over the previous year, 25.7 percent when supraquota surcharges are factored in. Peasant incomes rose markedly; using the total volume of agricultural and sideline goods sold during those years, we have calculated that peasant incomes rose 26.6 percent over the previous year, that is, by a total of 12.54 billion yuan, of which 10.8 billion was due to the increase in procurement prices. These measures greatly increased peasant

enthusiasm for and promoted expansion in production, which expansion is reflected in the following table.

A Comparison between the Output Volume and Marketed Rates of Some Principal Agricultural Products in 1978 and 1985

<u>Product</u>	Volume in <u>1985*</u>	<u>Output</u> Increase over <u>1978 (%)</u>	<u>Marketed Rate</u> (%)	
			<u>1978</u>	<u>1985</u>
Grain	379.11	24.4	20.3	30.5
Cotton	4.14	91.4		
Edible				
Vegetable Oil	5.789	180.3	55.9	68.4
Fattened Pigs	33.140	10	36.3	48.3
Aquatic Products	7.05	51.3		
Bluish Dogbane				
and Jute	4.119	280		
Beef Cattle			5.9	18.2

\*In millions of metric tons

The above figures show that this procurement price readjustment produced outstanding results and was a correct move.

Although procurement prices were increased in the readjustment of 1979, the sales prices of some agricultural were not increased, so as to avoid affecting the living standards of urban residents. Losses resulting from this policy were covered by state subsidy. Nevertheless, problems arose. Pig procurement prices were high, while pork sales prices were low, so peasants went so far as to sell to the state the pigs they raised for their own consumption, and even the restaurant industry and collective cafeterias sold the pigs they raised and bought pork from the state. Consequently, the State Council later decided to increase the sales prices of pork and seven other major nonstaple foods and to provide employees with price subsidies for such goods, which readjustments basically rectified sales prices for these foods.

Timely readjustments, based on supply and demand, of consumer-good prices are required by objective economic law. So long as these readjustments are carefully planned and arranged, we can avoid increasing the state's financial burden and affecting the people's living standards. For example, the 1981 readjustment of tobacco and liquor prices broadened the price spread, regulated supply and demand, checked unhealthy practices, satisfied producers, were acceptable to consumers and produced good results. And the 1983 readjustment of sales prices for pure cotton cloth helped promote increased supply thereof. At the same time, however, the prices of synthetic-fiber cloth and cotton-polyester blends were lowered. These readjustments reduced the state's losses, guided demand, satisfied the masses and thus proved beneficial both to the state and to the people.

The increases in prices for short-distance railroad transport and travel markedly reduced passenger and freight volume at such distances and helped to

develop the transport potential of highways and waterways and to alleviate transportation bottlenecks.

Rural grain procurement and marketing prices were readjusted and pig prices were decontrolled in 1985 because surcharge prices for supraquota grain sales had increased year after year, whereas procurement prices for live pigs remained low. This situation engendered a severe imbalance in the price parity between pigs and grain, made pig raising less profitable than grain growing, caused grain to be plentiful while pigs were dear and enabled grain production to grow rapidly while pork supply tightened. To rectify the price parity between pigs and grain, the state decided to replace unified grain procurement with contract purchases and to allow grain produced in excess of the contracted amount to be sold freely on the market. Grain sold back to the countryside was priced fairly at the "inverse ratio of 3:7," with the state subsidizing the difference. For live pigs, assigned procurement was replaced with decontrolled and negotiated pricing and free marketing. Sales of meat, poultry, egg and other fresh and live nonstaple foods were gradually decontrolled and invigorated to varying degrees in different regions and under different circumstances. At the same time, employees were given appropriate nonstaple-food price subsidies. Ever since this reform was implemented, the 800 million peasants of China have prospered, become content in their occupations and grown more enthusiastic about production. In 1986, summer grain and early-rice output increased by more than 10-plus billion jin over the previous year, and a good fall grain harvest was achieved through great effort in 1986. Meanwhile, pig stocks and meat supply increased, and the commercial economy grew. Market purchases and sales boomed, while prices did not increase as much as anticipated, thus reassuring the people. It is by no means the case that only the pre-1983 price readjustments were successful.

The above price readjustments took into account the ability of the state, the people and enterprises to bear the resulting financial burdens, were effected for certain periods of time to correct one or two irrational prices and advanced step by step, cautiously, gropingly and unfalteringly. This approach was conducive to the continued, stable and balanced growth of the national economy, laid the groundwork for further reform and paved the way for the gradual creation of a rational price system and for the reform of the entire economic administration.

## II. The Effort to Design and Formulate a One-Shot Program To Effect Complete Rationalization of Prices Is Impractical

I believe that, given existing economic conditions, it is unrealistic to expect that we can fundamentally rationalize prices, which have long suffered many defects, in one or two reforms.

First, it would take 1, 2 or even more years to design, collect data for, and to approve across-the board price reforms. Yet the costs, value and supply of and demand for commodities change constantly, so any program designed to meet some specific need will probably be outdated when it is finally put together. Moreover, the problems that plague the price system have accumulated over a long period of time, and there are new and old issues to resolve. One-shot

efforts to resolve these problems will probably create too great a shock for the state, the masses and enterprises to bear.

Second, changes in materialized and live labor, improvements in production technology, changes in natural-resource supply and fluctuations in foreign-exchange rates may directly or indirectly cause product value to fluctuate up or down. Thus, only by adjusting prices in a timely manner can we ensure reasonable profits for enterprises and reasonable earnings for producers. Yet these kinds of adjustments cannot be effected through across-the-board plans involving all prices. This point is apparent in the experience of foreign countries. To escape the difficulties it experienced in domestic production as a result of skyrocketing prices for energy and raw materials on international markets during the early 1970s, the German Democratic Republic readjusted prices for oil and cotton in 1976; for cloth, yarn, lumber, castings and other primary products in 1977; and for some processed goods in 1978 and 1979. Thus this country carried out a step-by-step readjustment of prices and thereby limited the impact of the readjustment to the smallest range possible. We should draw upon these kinds of experiences.

Third, conditions change constantly, so we must make constant price readjustments to adapt to these changes and therefore cannot expect to resolve things once and for all in a single reform. For example, after pig procurement prices were increased in 1979, pig output rose greatly, making it hard to sell, market and stock these animals. Later, following changes in the parity prices between pigs and grain, pig production in some regions fell, causing shortages in supply. In 1985, the government abandoned assigned procurement of live pigs and decontrolled pig prices, and thus across the nation average prices for standard-grade pigs rose approximately 30 percent above assigned procurement levels. Another example is hemp. When procurement prices for this product were increased in 1979, it was overstocked and could not be sold, so prices therefor inevitably have declined during the last two years. In the case of cured tobacco, when prices for this good were increased in 1983, output rose sharply, making it impossible to limit the area sown to this crop and thus reducing extra-plan procurement prices for the crop 15 percent since 1983. These facts demonstrate that prices must continually be readjusted in accordance with actual conditions. Commodity prices are also affected by many other factors, for example, by the value of commodities, by supply and demand, by taxation, by foreign exchange rates and by currency value. Thus we must make readjustments when needed. Even planned prices must be readjusted and cannot stay the same for ever.

Fourth, price reform involves change in prices, and if we concentrate our efforts and make big changes across the board, the shock would be too great for various sectors to bear. Summarizing our previous experiences in this area, it would appear that the main problems we confront in price reform are providing wage readjustments and the fiscal burden this would entail. Given the current state of overdistribution, we would find it difficult to finance efforts to ensure that the real incomes of the broad masses of urban and rural residents do not fall as a result of across-the-board price reform. Basically speaking, the reason we wish to reorder prices is to expand sources of income, yet the new income that would be generated through price increases will not entirely accrue to the government, whereas the people will become worried if

the increased expenditure they incur as a result of these price increases are not covered through wage readjustments. When we take into account these two problems--wage readjustments and the resulting fiscal burden, it becomes clear that price reform should not advance too rapidly.

Fifth, price reform is a part of the reform of the entire economic administrative system, price "readjustment" and "decontrol" must stay in line with other economic reforms, because economic reforms are mutually interrelated and thus condition and influence each other. Price readjustments and decontrol both will lead to fluctuations in prices, and while these readjustments cannot increase or diminish the ultimate source of wealth, they do affect results in various economic sectors and promote redistribution of current income. If financial, tax, wage and other economic reforms do not stay in step and are not coordinated with price reform, the latter will not be effective and may even create conflict between the state, the collective and the individual. Thus we should carefully consider all relevant factors when planning price reform and determining the pace at which it is to be implemented. Programs designed to reorder prices in one or two shots do not accord with objective economic law and, in fact, will not work.

In short, price reform has just emerged from its exploratory stage, and full-scale price reform has just begun. To ensure that this reform succeeds, we must bolster our confidence, seize all opportunities and be especially sure to be realistic, to seek truth from facts and to ensure success. Therefore, under current conditions, it is essential that we proceed step by step and make sure that we follow this policy carefully.

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CSO: 4006/728

## XUE MUQIAO DISCUSSES PRICE PROBLEMS

Beijing JIAGE LILUN YU SHIJIAN [PRICE: THEORY AND PRACTICE] in Chinese No 2, 20 Mar 87 pp 3-4

[Speech by Xue Muqiao delivered at the Symposium on Price Theory, jointly convened by JIAGE LILUN YU SHIJIAN and the Chinese Price Association, 25 November 1986: "Do a Good Job in Price Propaganda Work"]

[Text] Liu Zhuofu [0491 0587 3940] asked me to make an appearance and say a few words to this meeting of the Price Association. I have written many things on the subject of prices and have recently published a book entitled "Zhongguo wujia he huobi wenti yanjiu" [A Study of China's Price and Currency Problems] (published by the Red Flag Publishing Co) and thus have said pretty much all I would like to say on the matter. To commemorate the sixth anniversary of its founding, JIAGE LILUN YU SHIJIAN asked me to write an inscription, which I did, stating, "Strengthen theoretical research on price problems, properly conduct price propaganda work and promote reform of the price structure and of price administration." Much work has been done in price theoretical research, and too little has been done in the way of propaganda. This neglect has created many problems for our reforms of the price structure and of price administration that could have been avoided.

Central authorities have affirmed the importance of reform of irrational prices and of price administration and view these reforms as key to the success or failure of the reform of the entire economic administrative system. In the past few years, we have conducted a number of important price reforms and have achieved remarkable results in this work. Nevertheless, these efforts have stirred up much controversy due to the rise in prices the reforms have set off, and thus these reform have become a sensitive issue in economic restructuring. People were very disgruntled, for example, when prices temporarily rose as a result of the decontrol of nonstaple-food prices. Let's set things straight: Was this reform correct? Or was it a mistake? Did it succeed? Or did it fail? I believe that all of us here would agree that it was both correct and successful and that it helped greatly increase the supply of nonstaple foods and markedly improve people's diets. Nevertheless, confronted with a wave of complaints from the masses, our economists, especially price experts, have clammed up, been afraid to discuss price problems and are even more fearful of publishing works dealing with these problems. Some high-ranking leaders also believe prices are too sensitive to discuss and that one



should be especially cautious about publishing works on the issue. Consequently, we have put out very, very little on this matter about which the masses are most concerned, and this failure has made the masses even more uneasy.

Our decontrol of nonstaple-food prices last year was praised both at home and abroad, and critics believe that this reform solved problems that some other socialist countries would like to resolve but have not. When these countries tried to deal with this problem, they caused great price fluctuations and made their people much more dissatisfied than we have made ours; our reforms have been more stable and smooth. In implementing price reform, any nation probably will create some disturbance and may even have to assume considerable risk. Yet facts show that all nations that have boldly implemented reform now enjoy abundant supply and have markedly improved their people's actual standards of living. Conversely, nations that have failed to undertake such reforms remain saddled with lifeless, stagnant markets and have so few commodities to offer that they have no choice but to resort to rationing. Let's put it clearly: What situation is better--the early 1960s, when prices were stable and many nonstaple foods had to be rationed? Or these past 2 years, when prices were decontrolled and rose a bit (with people receiving price subsidies), thereby doubling and redoubling the supply of nonstaple food? In the past several years, people have eaten much better and worn much prettier clothes than they did during the 1960s and 1970s, and the furniture (including the old three big items and the new three big items) of the average worker and clerical family is much better than before, too. Reforms truly have markedly improved the people's standard of living. So why are we afraid to publicize these facts?

Prices have increased at a little higher rate the past 2 years, so the people's complaints are understandable. There are two reasons for the recent rise in prices. The first is that prices were forcibly depressed during the last 20-30 years, which policy caused output to decline, so the state had to resort to rationing just to maintain minimum levels of supply. This approach clearly violated the objective laws of commodity economy and was not in the real interests of the people. Now, if we are to rectify economic relationships, we must reorder long-distorted price relationships. It was this factor that caused the rise in prices when we decontrolled nonstaple-food prices and the recent rise in dairy-product prices in Beijing. In the past few years, the State Council has decided to decontrol the prices of minor commodities, but in fact many of these goods are still subsidized because people fear the reform will lead to large price increases. This fear frequently prevents us from meeting market demand. For example, matches have been in short supply the last few years because, while wood prices have increased, we have been afraid to raise the price of a box of matches from the current 2 fen. We feared the masses would be critical if the price rose, so we had no choice but to ration matches, limiting rural households to two boxes a month and Beijing households to five. Many localities, on the other hand, have raised prices to 3 fen the past year or two and thus have been able to increase supply. This has been the case for many minor commodities, whose production and supply are dependent on state subsidy. If we raise prices of these goods, the state can use the money it saves from subsidizing production and supply of these goods to increase wages or provide price allowances, and

supply will become more abundant. This approach can only improve, not reduce, the people's standard of living.

Another reason behind the rise in prices is that the state's system of macroscopic control has not functioned well, allowing fixed-capital investment to grow too fast--faster than the increase in output of the means of production, and allowing disposable income (which consists largely of wages and bonuses) to grow too fast--faster than the increase in output of consumer goods. When aggregate demand exceeds aggregate supply, we are forced to issue more money, which development is manifested as inflation, which unavoidably results in price rises. Assuming other factors to be constant, if output grows by 10 percent and the money supply rises by 20 percent, prices probably will increase by about 10 percent (if our work is conducted more effectively, this increase can be reduced somewhat). A major reason why nonstaple-food prices rose unusually rapidly last year is that we decontrolled these prices. But another important factor is that we lost control over fixed-capital investment and over increases in wages and bonuses during the fourth quarter of 1984. If we fail to bring these two things under control in the future, we will be forced to increase the supply of money and thus will be unable to curb price increases. And prices will be distorted even more if, under these conditions, price agencies try to get tough and prohibit price increases for minor commodities whose prices should rise, and if the state subsidizes the losses incurred through such a policy. The state ultimately will have to decontrol prices if we are to reorder economic relationships, and this will cause distorted prices to rise. Thus if price agencies ignore the law of and suppress prices, they are bound to distort prices and to create difficulties for economic reform. The basic way to stabilize prices is to bring fixed-capital investment and disposable income under control so that their growth rates do not exceed those for the output of the means of production and for consumer goods. If we fail to bring fixed-capital investment and disposable income under control and instead rely solely on price agencies, we will be dealing with trifles and ignoring the essentials, and even if prices are stable this year, they are bound to rise in the future.

Due to the above two factors, we have been unable to keep prices completely stable and have succeeded only in controlling the magnitude of the increase in prices so that the increase does not become unbearable for the people. When we decontrolled nonstaple-food prices last year, we provided price subsidies to the people of large and medium cities, who were most affected by the resulting rise in prices, so as to ensure that the people's standard of living did not decline as a result of the price rise. Still, the state can only deal with the overall picture, and in actual practice the subsidies some people received exceeded their losses, some people's losses were not fully covered by the amount of subsidies they received, and most people came out about even, yet even the latter's expenditures still increased because they consumed more nonstaple foods. People in capitalist countries are used to price fluctuations, but in our country, where prices have been kept stable for a long time, many people panic when prices go up a little. Thus we must clearly explain the real situation to the people and lay things out for them in black and white so they can see for themselves whether their lives have improved or not and so that we can keep them from obstructing our reforms over their fear of price readjustment.

In my view, there are two aspects to the notion of whether or not the people can bear the impact of price reform. The first is material bearability, which can actually be measured. Is price readjustment beneficial, or is it harmful? Do living standards improve or decline as a result of price reform? I think that the vast majority of people realize that our recent economic reforms, including price readjustments and restructuring of the price management system, have made markets flourish much more than in the past, and that the people's living standards have truly improved. Nevertheless, because we have become accustomed to stable prices, people may panic as soon as some disturbance occurs. For example, the question of whether or not to increase the price of a box of matches 1 fen should have been a small matter, but some people started saying that no one can do without matches and that an increase from 2 to 3 fen would involve a rise of 50 percent and thus made it inevitable that everyone would start complaining. This issue was discussed for a number of years; some localities boldly raised prices and had no trouble, whereas some areas were afraid to raise prices, let supply remain tight and thus gave their residents more than a fen of trouble. When I was in Shanghai in January of last year, someone told me that "the people of Beijing will not survive now that cucumber prices in that city have risen to 1.80 yuan per jin." I told him that "if people can't eat cucumbers, they can get along just as nicely by eating Chinese cabbage at 0.34 yuan a jin. And when I got back to Beijing and checked the agricultural markets, I discovered that many people were snapping up cucumbers even at 3 yuan per jin. The cucumber consumers are not worried about high prices, yet people who do not eat cucumbers are blindly worried about the consumers thereof. Clearly, this is not a question of material bearability but of psychological bearability. To strengthen the latter, we must properly conduct propaganda and education work. If we shirk from discussing the price question just because it is sensitive, we transform a small problem into a large one and make things very difficult for price reform. I hope this conference will put an end to this state of affairs.

The price issue certainly is complicated; the people do not understand it, and the people who talk about it often do not understand it. So we must explain it carefully and repeatedly. If someone does not understand the problem, we should ask him to check to see if there are more things on the market or not, and to see if the people are eating and dressing better or not and using more goods or not. The goal of our administrative reform is to develop production and improve the people's standard of living. If we have achieved this goal, then that would prove that our reforms have been successful. Of course, the price issue certainly is not impossible to explain. First, comrades doing price work and studying economic- and administrative-reform issues must obtain a clear understanding of the issue, and once they have done so they should repeatedly explain the matter to the masses, focusing on the problems that the masses are worried about, and gradually transform the rigid thinking that has been caused by previous mistaken policies. Since our policy is correct and has yielded good results, we should boldly publicize it and not be afraid of criticism. We must thoroughly understand the price issue, realize why we must reform prices, and conduct more study of the specific steps that should be adopted in price reform. One of our purposes in doing this is to provide plans and policies to the government for consideration. The other is to induce everyone boldly to publicize our work among the masses so as to achieve even better results. If we can break through this bottleneck and reorder economic relationships, we will be victorious in our effort to reform the entire economic administrative system.

## CHINA DAILY ON INVIGORATING GIANT PARTNERSHIPS

HK100314 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 10 Aug 87 p 1

[Article by staff reporter Wang Yanping]

[Text] As the contract responsibility system is extended to enliven the nation's 8,000 medium-sized and large enterprises, China is developing another method to invigorate the giant partnership concerns formed in recent years in leading industries.

Preparatory work is under way to link another four partnership groups directly to the State Planning Commission. The four groups--the Dongfang Electric Manufacturing Corporation in Chengdu, Sichuan Province, and Xi'an's Harbin's and Shanghai's Electric Manufacturing Corporations--used to be under the tight control of different ministries and local authorities.

The State Planning Commission calls the method being "on line," a term borrowed from computing. When partnership concerns arrange to be attached directly to the commission, they are said to be on line.

So far more than half of China's medium-sized and large enterprises have introduced the contract responsibility system, and many small businesses have taken up different forms of the responsibility system, like leasing. Many of these organizations have achieved prosperity. However, the partnership groups, which usually have partners throughout the country and are too large and important to be contracted out to individuals, are still under the control of their parent ministries and local authorities.

To free such giants from administrative control, the State Council decided last year to bring the three partnership corporations in the motor-vehicle industry on line. They are the No. 1 Automotive Group in Changchun, Jilin Province, the No. 2 Automotive Group in Shiyan in Hubei and the Heavy-Duty Truck Group based in Jinan, Shandong.

"At present, while the original economic system remains in force, the method is an effective way to invigorate the state's backbone enterprises," Liu [not further identified] said.

Representative from the three automotive groups share his view. Tian Wanzag of the No. 1 Automotive Group, speaking at a three-day seminar on China's enterprise reform last week in Harbin, said, "Since our group was attached to the State Planning Commission last September, we have enjoyed more freedom in making decisions, finance and foreign trade.

"For example, we no longer have to run between different ministries, the China Automotive Corporation--our group's original superior--and local authorities for stamps of approval to undertake technical renovation projects because now we have the say over projects worth less than 30 million yuan. Even if the money involved in projects is above 30 million yuan, we only need to go to the State Planning Commission. But in the past, upgrading projects above 500,000 yuan had to be approved by the government."

On being attached to the State Planning Commission, the group reached an agreement with the government on handing in profits. Beginning with 1986's 137 million yuan, the amount will rise annually by 2.5 percent until 1990. In the past the group handed over 95 percent of its total profits, according to Tian.

"The new method means the more profit we earn the more money we can keep. This stimulated the enthusiasm of the group, without investment from the state, spent 430 million yuan replacing its old model trucks with the Jiefeng 141, which is selling well in the domestic market," Tian said.

He said this method of management also favored the small enterprises in the group since the group can help them develop main products which would have markets.

The Dalian Diesel Engine Factory, which produced diesel engines for farming machines was having difficulties selling its products. After joining the group, it became the leading diesel engine maker in China. Last month 300 engines made by the factory were installed in the group's trucks, according to Tian.

But some researchers at the seminar, sponsored by the China Economic Academy Association under the Chinese Academy of Social Sciences, said the method did not suit the needs of the market economy and would lead to a return to economic stagnation.

Economist Yu Guangyuan said the present problem was determining the extent to which the state should control the economy in terms of planning rather than deciding whether a planned or market economy should be adopted.

Zhou Wenjie of the No. 2 Automotive Group said he favored the on-line system but hoped his unit would be given more raw materials, even if they were at market prices. The group gets only 50 percent of the materials it needs through allocations.

On the problem of supply, Liu suggested that important materials be allocated by the State Planning Commission directly to local authorities or large groups under its control instead of to different ministries.

Li Peng of the State Economic Commission said he favored another method: "All materials should be put on the market, and customers who carried out the state's plan targets should be subsidized."

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CSO: 4020/253

## ANSHAN TECH TRANSFORMATION FUNDS TO TOTAL 3.15 BILLION YUAN

Shenyang DONGBEI JINGJI BAO in Chinese 7 Apr 87 p 1

[Article by staff correspondents Jin Jingzhi [6855 7234 0037] and Ren Qingxun [0117 3227 7311] "Anshan Iron and Steel Corporation Invests Enormous Sum in Large-Scale Upgrading; The Plant Will Generate 100 Million Yuan in Taxes and Profits During the Seventh 5-Year Plan"; First paragraph is source-supplied introduction by editor]

[Text] There are 52 large enterprises in the northeast region that are the mainstays of technological upgrading during the Seventh 5-Year Plan. The state plans to provide considerable support in various ways including supplying funds, equipment, and raw materials to ensure the smooth technological transformation of these enterprises. These 52 enterprises account for 60 percent of the gross output value of their respective industries in the northeast. Their ups and downs directly affect the speed at which the state carries out economic construction. An important measure in ensuring the fulfillment of the Seventh 5-Year Plan is to guarantee that these key enterprises upgrade technologically. This newspaper will continue to report on the technological transformation of these enterprises.

The Anshan Iron and Steel Corporation plans to invest 3.15 billion yuan in the following: major upgrading in the iron-smelting and sintering systems, the completion of steel-smelting, continuous casting and energy conservation projects, to complete the steel rolling mill upgrading project and the mine upgrading project. When upgrading is complete, Anshan will be at the forefront of the industry in terms of technology, management, and economic benefits. At the end of the Seventh 5-Year Plan, annual steel output of the mill will be 8 million tons and the foundation will have been laid for subsequent increases in production to 10 and 15 million tons. The gross industrial output value will be 5.26 billion yuan with realized profits of 2.22 billion yuan, 31.5 percent and 67 percent more than in 1985.

The Anshan mill was built in 1916, and although it has been remodeled and enlarged many times since the founding of the PRC, the mill is still quite antiquated. Eighty percent of the equipment is at the same as that found nationwide while 7.8 percent is more outdated than that found elsewhere. This equipment is what the 400,000 workers and staff used to increase production

from the 840,000 tons of the period of the Japanese puppet government to the more than 7.4 million tons today. In the 30 some-years since the founding of the PRC, the mill has earned 36.3 billion yuan in profits and taxes, of which 33.8 billion yuan were handed over to the state. Among the nine largest steel mills, Anshan ranks first in the gross value of taxes and profits contributed to the state, seventh in the sum retained by the mill, and seventh in worker salaries. During the Seventh 5-Year Plan, the state will continue to increase steel production capacity. Anshan is duty-bound to help the state but it is unable to meet the demands of national economic development because its equipment is old, its industrial technology backward, its production links are incomplete, and management skills are weak. This has resulted in relatively high waste, low product quality, serious pollution, and difficulties in improving economic efficiency which prevent it from adapting to the needs of the national economy.

However, once Anshan is technologically upgraded, it will have great potential. First, its ores are very rich, an advantage which no other steel mill in the country enjoys. Iron-smelting, coking, and sintering all could be expanded and these capabilities are sufficient for steel-making. The mill has sufficient technical and construction capabilities to technologically upgrade using their own resources. Reform and technical upgrading will considerably increase the technological level of the mill. Product quality and product mix will become more competitive and adjust more easily to changes in the market. The quality of the principal products will all meet state standards. The proportion of low-alloy steel will increase from 27.8 percent in 1985 to 37.5 percent and the proportion produced by continuous casting will reach 31 percent. The comprehensive finished product rate increased, energy consumption declined, environmental pollution was put under control, and management standards became more modern.

Some of the technological transformation projects are already underway. The leading comrades have established horizontal associations in all aspects and have collected the necessary funds and materials. Departments concerned with the supply of coal, electricity, and transportation services are providing strong support as needed by technological transformation. The Liaoning provincial government and the Anshan City government are working hard to help the leading comrades collect funds from social groups. The workers and staff of the Anshan mill plan to upgrade technologically, under the principle of helping the state increase steel output. Preliminary estimates show that during the Seventh 5-Year Plan, Anshan will accumulate 11.36 billion yuan in realized profits and taxes, an increase of 3,554,000,000 billion yuan over the Sixth 5-Year Plan. This will completely cover the cost of technical upgrading and in fact result in a surplus.

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CSO: 4006/715



## PROBLEMS IN PRC INDUSTRIAL PRODUCTION REVIEWED

OW121134 Beijing XINHUA in English 1111 GMT 12 Aug 87

["Roundup: Industry Production Good, Problems Need Solving"--XINHUA headline]

[Text] Beijing, 12 Aug (XINHUA correspondent Ge Daxing)--While maintaining a high growth of industrial production, China will have to overcome some salient problems, including shortages of electricity and raw materials, and overstocking of some products, later this year.

Despite a rapid rise in energy production, the country's energy sector, particularly electricity, still can not keep pace with the growing demand.

According to the State Statistics Bureau, China's electricity output in July was 1.5 billion kilowatt-hours more than in June. In all, the rate of increase in electricity output rose to 9.8 percent from the average 9.6 percent in the first half of this year.

Nevertheless, at least 20 percent of China's industrial production capacity is yet to be tapped fully merely for lack of power, while generating units throughout the country are usually operating at an overload.

Small generating units owned by the industrial enterprises and township-run factories usually consume at least 100 percent more coal than those in power plants.

China's mining and raw material industries have grown steadily since the beginning of this year and yet are still behind the processing industry.

In the first seven months of this year, there were increases of five to 10 percent in production of iron ore, steel, rolled steel, cement, soda ash and caustic soda, compared with a 15.2 percent rise in the country's industrial production as a whole.

In the first half of this year, the output of the mining industry rose by 6.6 percent, that of the raw materials industry, by 13.4 percent and that of the processing industry by 16.8 percent.

Although China has improved its product mix so far this year, the contradiction between supply and demand remains sharp. In the first seven months of this year, there were increases in the output of 86 of the country's 100 major industrial products, while growth rates of slow-selling goods dropped markedly.

Even so, pure cotton cloth, paper, color tv sets and small domestic commodities are still in short supply, while production of wrist watches, radios and tape recorders, which are already in excessive supply, is still rising. Meanwhile, the surplus of tires, machine tools, washing machines, electric fans, bicycles and liquor has continued to increase.

Therefore, how to concentrate energy and raw materials on production of readily marketable goods remains a practical issue confronting China's industrial production.

China's industrial production is projected to rise seven percent or slightly higher this year. A release from the State Statistics Bureau shows that China's industrial output value amounted to 576.9 billion yuan (about U.S. \$155 billion) in the first seven months of this year, up 15.2 percent from the same period in 1986. And the value rose 16.9 percent to reach 84 billion yuan in July--the highest growth rate so far this year.

Leading economists here have called for the need to apply what they call "a little cold water" to industrial departments and enterprises to make them sober-minded and turn their attention to the solution of current problems.

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CSO: 4020/253

## FREE MARKETS TO CURB STEEL STOCKPILING

HK120638 Beijing CHINA DAILY in English 12 Aug 87 p 1

[Article by staff reporter Zhang Ping]

[Text] China is opening free steel markets in its large cities to promote the sale of steel which has been stockpiled because of the rigid distribution system and excessive imports.

Since 1986, Shanghai, Shenyang, Shijiazhuang and some other cities have established free markets.

However, only 10 percent of the total steel output is sold through these markets. A great amount of surplus steel is still held by various enterprises and steel producers, according to Zhang Yinzong, an official from the Iron and Steel Department of the Ministry of Metallurgical Industry.

Last year, more than 28 million tons of steel was kept in stock and by the end of June that total had reached 30 million, more than half of the country's annual output.

Zhang told CHINA DAILY that the amount of steel in storage rose sharply in 1985, and the amount was still increasing. Zhang explained excessive imports were one cause for the overstocking, because the amount of imported steel plus home-made steel sometimes surpassed demand.

In 1986, the amount of surplus seamless steel pipes was about 320,000 tons while in 1985 the surplus reached 880,000 tons.

Some work units buy as much steel as they can at the state price, then hoard it in case there should be a shortage later, Zhang said. Steel plants are also responsible because some of their products are not sold or cannot be used.

The state has allowed enterprises to sell their surplus steel products at market prices even though they bought them at the state price. The market price is usually 80 percent higher than the state one.

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## CONSTRUCTION PROJECTS DEFAULTS' CIRCULAR ISSUED

HK080554 Beijing CHINA DAILY in English 8 Aug 87 p 1

[Article by staff reporter Xie Songxin]

[Text] The government and banks are helping construction firms get money from units which refuse or are unable to pay for construction projects.

A circular issued jointly by the State Economic Commission, the State Planning Commission, the People's Construction Bank of China and the Industrial and Commercial Bank of China calls on their sub-committees or branches throughout the country to demand payments from those units in arrears.

The Construction Bank disclosed yesterday that the amount of defaulted construction payments in the country reached 6 billion yuan (\$1.6 billion) by the end of June, compared with 4.6 billion yuan (\$1.2 billion) at the end of 1986.

In East China's Shandong Province, 1,884 units did not pay 524 million yuan (\$141 million) for construction projects by the end of last year. In southern Guangdong Province, 803 units defaulted on 516 million yuan (\$139 million) of payments.

Yu Juanling, a bank official, said the defaults had caused shortages of funds for some construction enterprises. The defaults now account for 30 percent of the fixed circulation capital of some enterprises.

Bank officials attributed the defaults to cost overruns on some construction projects, projects ordered by local governments with no promise of payment, projects outside the overall plans of central and local governments, suspended or halted construction and price increase for building materials.

Most of the units which have defaulted started construction even though they did not have enough funds. Of the 524 million yuan in defaulted payments in Shandong Province, 315 million belonged to units which were short of funds. Of the 516 million yuan in Guangdong Province, 211 million was accounted for by units without adequate funds.

Yu also blamed expanding construction teams, which are competing with each other for jobs.

At present, China has 18 million construction workers, of which 5 million are in state-run construction enterprises and 5 million in collectively run firms. The other 8 million are farmers turned builders.

"Competition is fierce between construction enterprises, which seldom mind suspended payments as long as their employees have jobs to do," Yu said.

To curb the recurrence of defaults, the circular asks planning commissions, economic commissions, construction banks and industrial and commercial banks in all provinces, municipalities and autonomous regions to take stiff measures to stop construction of those projects which lack adequate funds.

Construction licences will be only given to those units which have enough bank deposits and a bank statement saying this.

The defaulted units will be fined 3 yuan per 10,000 yuan of defaulted payment a day starting from the contracted paying date.

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CSO: 4020/253

## COMPARATIVE STUDY OF CHINESE, SOVIET ECONOMIC REFORM

Beijing JINGJIXUE ZHOUBAO in Chinese 31 May 87 p 4

[Article by Zheng Biao [6774 1753]: "Comparative Study of Chinese and Soviet Economic Reform"]

[Text] Since 1979, in just a few short years, China has won public approval in both the East and the West for the fundamental changes it has wrought in its economic system and development strategy, and for the great successes it has achieved due to these changes. During the same period, the Soviet Union's economic system has not changed very much, due to the interrelated effects of various problems. Comparatively speaking, Soviet reforms are facing an intense challenge from China. This is a major change on the international scene that has occurred in the last few years. In recent years the Soviet Union has undergone tremendous changes that have attracted worldwide attention. Since the mid-1980's, with changes in top Soviet leadership, reform of the Soviet economy has begun to be pushed. In many respects and to a considerable extent, this reform is worth studying and comparing to the changes brought about by Chinese economic reform. In terms of comparative economics, a comparison of Chinese and Soviet reforms is an important part of any international comparison of socialist economic reform.

In terms of the internal components of the strategic situation in Soviet development revealed in the last two years, there are three basic points that merit close attention: 1) A high degree of concern with scientific and technological advances. Faced with the challenge of the new technological revolution, the Soviet Union faces the task of technologically upgrading its entire economy; the magnitude and significance of this task are no less imposing than they were for industrialization in the 1930's. The Soviets have therefore put technological progress in first place. To this end, Soviet leadership adopted two measures that merit attention: First, implementation of an intensive investment policy calling for a total investment of more than 200 billion rubles during the Twelfth 5-Year Plan, exceeding the total invested in the previous 10 years, to be used for renewal and reorganization. Second, application of a wage policy to hasten personnel advancement and raise people's professional levels and technical skills. In recent years the Soviets have greatly raised wages in such segments of the intelligentsia as education, science and technology, and health care, and have struggled to overcome long-standing abuses of egalitarianism and inverse rewards for intellectual and

physical labor in all distribution. A 1986 resolution on wage reform clearly stipulated that wage differentials must be expanded, with wage levels for specialized technical personnel raised significantly (with average wages for the intelligentsia increased between 30 and 35 percent). 2) Fundamental reform of the economic system. For many years Soviet economic reforms have moved along two parallel paths: improving planning, and perfecting economic mechanisms. Because the effects of the commodity-currency relationship were underestimated, however, "perfecting economic mechanisms" has been basically a hollow phrase. If reforms are to achieve greater progress, more effort must be put into these two paths. On the one hand, the function of state planning must be changed to improve the efficiency of a centrally planned economy; on the other hand, the role of the commodity-currency relationship in overall social reproduction must be increased., so that enterprises institute complete accounting, offsetting expenditures through revenue, raising their own funds, and becoming genuine socialist commodity producers. It will not be easy for Soviet economic reform to proceed in this direction, but it appears that the possibility exists for the Soviets to begin establishing a "flexible and efficient" planned economic system. 3) Social reforms, particularly reform of the political system. Many new things have come into being in the Soviet Union in this respect, such as people's self-government, social fairness, political openness, "reform of the Party itself," expanded democracy, perfection of the electoral system, basic improvement of the supervisory system, removal of corrupt Party members and cadres, elimination of special privileges for cadres, etc. All of the above have begun to be implemented, and this is not, as some Westerners have claimed, "just talk." From the preceding rough outline, it is clear that the Soviet leadership has not pawned the "jewel" of development on economic reform; rather, they are attempting to achieve simultaneous breakthroughs in several strategic directions. Whether the lines of thinking and measures now evidenced in the Soviet Union will be able to move ahead and achieve the anticipated results remains to be tested in practice. But an earnest study of these trends in the Soviet Union can undoubtedly provide lessons for us. Unfortunately, studies in this respect are still very inadequate.

Chinese and Soviet reforms demonstrate that both countries have actually begun to compete in the areas of socialist construction and reform, and this marks a new stage of socialist reform. This competition is one of the significant events of the 1980's; it is difficult to predict the impact this will have both on these two countries and on international society.

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CSO: 4006/796

## NATIONAL SEMINAR EXAMINES AGRICULTURE, REFORM

HK040621 Beijing GUANGMING RIBAO in Chinese 24 Jul 87 p 1

[Report by Yuan Xiang (5913 4382): "National Seminar on Agriculture Calls for Developing Outwardly Oriented Agriculture and Deepening Rural Reform"]

[Text] How should we advance our rural reform which has been carried out for over 8 years? A recent national seminar on outwardly oriented agriculture in Zhuhai City held that the development of outwardly oriented agriculture is a major step and a breakthrough point in deepening the rural reform and developing our country's agriculture. So, leaders at all levels should study and understand this issue better, and adopt more effective policies and measures to promote the development of outwardly oriented agriculture.

People attending the seminar pointed out that outwardly oriented agriculture is mainly aimed at international markets and serves the purpose of exporting goods to earn foreign exchange. It is a commodity economic system that operates on a large scale and reaches a high technological level. Such an agricultural system represents the target and tendency of the change in our rural economy from a self-sufficient natural economy to a socialized and specialized commodity economy, and from traditional to modern agriculture. The development of outwardly oriented agriculture will promote the development of the rural commodity economy in an open way, and promote the building of the new and modern countryside, which is richer and more civilized, in an open way. This will play an exemplary and stimulating role in the development of the countryside throughout the country and will raise the productive forces of agriculture to a higher level, thus realizing the great take-off for agriculture in the whole country.

At present, outwardly oriented agriculture has substantially developed in the coastal areas and some interior areas. However, many favorable factors, including some old ideas and old systems, have obstructed its further development. The experts proposed that through deepening reform, positively organizing vertical and horizontal economic association on the basis of household operation, and taking a variety of economic combination bodies in various trades and at various levels as the backbone force to promote specialized production, all localities would gradually establish integrated systems for the production and marketing of various agricultural goods, and coastal areas and other areas with favorable conditions would play a "window" role for the development of a multi-layered outwardly oriented economic structure.



When discussing the measures for developing the outwardly oriented agriculture, the seminar participants especially stressed the need to establish the strategic idea of relying on science and on people who have technological knowledge, and to increase technological and intelligence investment. They said that more money should be used to develop an integrated system of production, transport, storage, processing, packing, and marketing for agricultural products. A technology system which integrated traditional and modern technology should be formed. Efforts should be made to improve the educational conditions for rural laborers, and to train a large number of professionals who master modern economic management knowledge, modern agricultural technology, and foreign languages, so as to suit the needs in the development of outwardly oriented agriculture.

The seminar was jointly sponsored by the Guangdong Provincial Research Center for Rural Development, the Guangzhou City Agricultural Commission, the Zhuhai City Agricultural and Fishery Commission, the National Research Society for Agricultural Economic Results, the Metrological Economic and Techno-Economic Research Institute of the Chinese Academy of Sciences, and the Shanxi Provincial Academy of Social Science. More than 170 experts from all parts of the country attended the meeting.

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## LIAONING REPORTS ACHIEVEMENTS IN RURAL REFORM

SK052355 Shenyang Liaoning Provincial Service in Mandarin 2100 GMT 4 Aug 87

[Text] Since the 3d Plenary Session of the 11th party Central Committee, our province has scored four major achievements in its rural economic structural reform. First, the rural areas have reformed the original economic pattern characterized by communes, which were larger in size and collective in nature, and have extensively instituted the output-related contract responsibility system mostly with households as the basic unit. The masses of peasants have acquired the status as producers of commodities, thus providing the basic conditions for rural commodity economic development.

Second, a multilayer and multichannel rural commodity market has begun to be built. Since 1985, when the monopolized and fixed-quota purchasing systems were reformed, most farm and sideline products in our province, except for grain and cotton, have been basically regulated by markets. The contract purchasing system and the market purchasing system have been applied simultaneously in the purchase of grain. With the development of the commodity economy and the expansion of the scope and functions of market mechanisms, more than 1 million peasants throughout the province have organized themselves voluntarily to enter the circulation sphere, and more than 2,200 urban and rural trade fairs and more than 20,000 organizations for commodity circulation and service have been established. Some peasants have successfully raised funds to cultivate fresh-water and marine products and to develop forestry, fruit production, and animal husbandry. Township enterprises have developed very rapidly, and a good trend has emerged in integrating the urban and the rural economies. Reform of the supply and marketing cooperative has been carried out in a comprehensive manner, rural money markets have begun to appear, and rural people's monetary organizations have been established.

Third, the rural production setup has been readjusted. The single-product economic pattern that lasted for a long time has been replaced by a new pattern of comprehensive development of various trades, importance has been attached to tree and grass planting, animal husbandry and aquiculture that were less developed for a long time, the proportion of rural industries, construction industry, transportation and commerce has been increased year after year, and the proportion of farming has declined. The output value of the rural secondary and tertiary industries in the total rural product rose from 52 percent in 1985

to 59 percent in 1986, and the ratio of the output value of the primary industry to that of secondary and tertiary industries changed from 2.8 to 1 in 1980 and from 1 to 1.5 in 1986. Rural manpower engaged in nonagricultural labor amounted to 35 percent of the total rural manpower in 1986 as against 29 percent in 1985.

Fourth, an economic pattern dominated by public ownership that allows the coexistence of various forms of ownership and modes of business operation has been established in its initial form. The public sector of the economy has been invigorated, the private sector and private enterprises have developed to a certain extent, and the various forms of cooperation in operation have eliminated the mechanical division of the structure of ownership. A trend of coexistence and emergence of different ownership has emerged.

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## ARTICLE ON CONTRACT SYSTEM, SOCIALISM

HK050824 Beijing BAN YUE TAN in Chinese No 13, 10 Jul 87 pp 8-9

[Article by Chen Kiaguo (7115 7030 0948), research fellow of the Rural Policy Research Office under the CPC Central Committee Secretariat: "The Contract System of Responsibility Linked to Production Is a Major Characteristic"]

[Text] How should we view socialism with Chinese characteristics? As far as rural areas are concerned, the contract system of responsibility linked to production is a product of integration of the cooperative system theory and the actual circumstances in rural China, a road to development of socialist rural areas with Chinese characteristics.

For the past decades we have always been seeking a road to development of socialist rural areas. Engels' principle on joint ownership and collective labor, based on the Soviet Union's collectivization model, and under the circumstance that the production conditions in rural areas remained basically unchanged, a public ownership system was built up and a structure of people's communes characterized by a high degree of centralized operation and unified distribution was implemented by the means of simple merger of the peasants' production means that had not been socialized (the masses called it "forming partnerships"). Practice over years has proved that this structure does not suit the actual circumstances of rural China. As the peasants did not enjoy the decision-making power regarding management, their socialist initiative was seriously dampened and the country took many roundabout courses.

At the beginning of the rural reform, peasants in some areas practiced the system of fixing of farm output quotas for each household and good results were scored. This system, extended and improved by peasants in other areas, has developed into the contract system of responsibility linked to production. With the decision-making power regarding management delegated to the peasants, this system has solved a major problem of the socialist economic structure, namely, that concerning the relations between the public ownership and the farmers, or that concerning the relations between the farmers' work and their remuneration. The principle reflected by the contract system of responsibility linked to production applies not only to rural areas but also to cities. This is a great contribution to the building of socialism with Chinese characteristics.

The contract system of responsibility linked to production, which is based on household operation, has assumed a two-level operational structure characterized by the integration of unified management by the collective and diversified operation by farmers. It conforms with the actual circumstances in rural areas, the special features of agricultural production, and the laws of development of the rural economy. Making a breakthrough in the structure of people's commune, this system has combined collective management with household management by the means of contracted responsibility linked to production. On the premise that the public ownership of land remains unchanged, it has given full play to the initiative of both the collective and the farmers, helping to emancipate productive forces and opening broad vistas for future development.

The contract system of responsibility linked to production must be constantly improved through the masses' practice. And this demands that close attention be paid in the course of reform to the three aspects of this system which are related to each other, namely, the public ownership of land, the separate management by individual households, and joint service.

The public ownership of land is the fundamental system in rural China and the basis of the cooperative economy. The coexistence of the public ownership of land and the public and private ownership of other production means will feature the ownership structure in rural areas for years to come. With its primary and secondary aspects clearly differentiated, this structure is highly flexible and displays a great vitality. At present, we must tighten control over contracting of land management to make sure that land is utilized as reasonably as possible, prepare an environment for large-scale operation, increase investment, and raise the yield of land.

Separate management by individual households is a system which delegates decision-making power to contractors with a view to bringing their initiative into play. Contractors can be individual households, associations of households, small groups, or enterprises. As an actual fact, management on a household basis has a broader basis in rural areas in China. Developed countries' experience has shown that modernization and management on a household basis can go along side by side. Therefore, management on a household basis should not be changed rashly but be retained for a long time.

Joint service is designed to meet the needs of management on a household basis. It means to strengthen socialized service through cooperative management. We must not only strengthen production service to rural cooperative organizations and peasants but also make extensive use of other economic and social organizations and extend to peasants various services relating to processing, circulation, finance, and scientific and technological support. In addition, we must also develop various forms of economic association in rural areas and various forms of association between rural areas and cities, and unremittingly raise the degree of socialization in rural areas. Joint service is the direction for the future development of the cooperative system and the trend of development of the commodity economy.

The first phase of the rural reform, with the establishment of the contract system of responsibility linked to production as its main content, has made a breakthrough in the longstanding stagnant rural economy. As a result, the peasants' initiative and originality have been brought into play and a prosperous and promising situation has emerged in rural areas. In the peasants' eyes, socialism now has a new image which can better inspire them to work hard. This indicates that the socialist reform is successful in rural areas and the peasants welcome such a socialism.

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## GUANGDONG CONFERENCE DISCUSSES RURAL MANAGEMENT

HK080531 Guangzhou Guangdong Provincial Service in Mandarin 0900 GMT 7 Aug 87

[Text] Guo Rongchang, deputy secretary of the provincial party committee, stressed at a provincial rural management work conference which concluded today that all localities must actively develop cooperative management organizations and further perfect the two-level management setup of centralization and decentralization, so as to make some breakthrough in the province's rural structural reform this year.

Since last winter, some 14,000 township village economic joint cooperatives have been set up in Guangdong, accounting for 66 percent of the total number of township villages. In addition, natural villages and joint teams [lian dui] have set up 130,000 economic cooperatives and joint cooperatives, accounting for 79 percent of the total number of natural villages and joint teams. However, the leaders in some localities lack sufficient understanding of the role of the economic cooperative organizations. They think it sufficient to carve an official seal and hang up a sign. Some even take no action at all.

In view of these problems, Comrade Guo Rongchang pointed out that instituting the two-level management setup of centralization and decentralization is beneficial for guiding agricultural production and better serving the development of rural commodity economy. He called on areas that have not yet set up economic cooperative organizations to regard this as a key task and grasp it seriously and well. Places that have set up these organizations must consolidate and perfect them.

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CSO: 4006/878

## EFFECTS OF DROUGHT WIDESPREAD IN NORTH

OW060745 Beijing Domestic Service in Mandarin 1500 GMT 5 Aug 87

[Text] Drought is currently serious in northern China. Local authorities are working hard to fight drought and reap a bumper autumn harvest. Torrential rains in southern China since July resulted in flood peaks in the Chang Jiang and Huai He. However, precipitation was low in northern China after the onset of the rainy season and much lower since mid-July. Precipitation was less than half of the annual average in most places during the last 2 weeks of July and drought became more serious with the steady rise in temperature.

According to statistics from the office of the State Council's leading group for combating drought, 9 million hectares of land nationwide were afflicted with drought by the end of July with Shandong, Shanxi, central and southern Hebei, northern Henan and northern Shaanxi accounting for more than 92 percent of the total drought-stricken area. Hebei Province was seriously affected with nearly 60 percent less rainfall than average years and those rains were intermittent thundershowers covering small areas. The total area in the province affected by drought reached 30 million mu. It is learned that prolonged low precipitation and high temperature in mid-summer had a serious effect on the soil moisture greatly endangering agricultural production of autumn crops. Hebei, Shanxi, Henan and other areas have already taken concrete measures to simultaneously prevent against floods and drought. Some places have given priority to supporting antidrought struggle by increasing supplies of electricity. Many places strive to readjust the supply of diesel oil used in combating drought, and drill and repair wells to obtain more water for irrigating more land.

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## LIAONING DROUGHT CONTINUES

SK090250 Shenyang Liaoning Provincial Service in Mandarin 2100 GMT 8 Aug 87

[Excerpt] Since the beginning of August, the various localities in our province have continued to experience little rain, and the drought situation has become more serious with each passing day. According to statistics compiled from 1 August to 0500 on 8 August, the precipitation of Shenyang, Liaoyang, Dalian and Dandong ranged from 20 to 60 mm, 60-90 percent less than in the corresponding period of normal years. Fuxin, Yingkou, the northern part of Chaoyang, and Haicheng City in Anshan had practically no rain, and the drought situation continued to develop. These areas should step up efforts to combat drought.

In view of the serious drought situation, Chaoyang City has created an upsurge in combating drought, reducing losses, and maintaining good harvest. By 5 August it had irrigated 110,000 mu of farmland.

Since the beginning of July, the precipitation of Chaoyang has amounted to 50 percent of the corresponding period of normal years. The 2 million mu of farmland of the city has been seriously affected by the drought. Production on 1 million mu of farmland will be reduced by 20 to 70 percent, and 100,000 mu of farmland will yield nothing. More than 100,000 fruit trees have dried up and died. To combat drought and maintain a good harvest, leading persons at various levels of the city have gone to the forefront of the antidrought work to ascertain the disaster situation and direct the antidisaster work. Supplies, agricultural electric supply, petroleum, and supply and marketing departments have gone into action to collect antidrought materials by all means possible. Most peasants have discarded the idea of waiting for rain and have begun to make the best use of their wells and cars to irrigate every mu of farmland and every tree that can be irrigated.

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## SHANXI URGES ACTION AGAINST DROUGHT

HK090159 Taiyuan Shanxi Provincial Service in Mandarin 2200 GMT 8 Aug 87

[Excerpts] The provincial government held a conference of prefectural commissioners and mayors in Fanshi County on 7 and 8 August, to find out the current situation in drought and other natural disasters and consider action. The meeting called on all localities to brace their spirits and get a good grasp of self-salvation through production.

Input in the province's autumn crops was large this year, and the crops grew well in the first half of the year. However, since mid-July most parts of the province have had high temperatures and no rain, and the drought is now rather serious. Some 39 million mu, 80 percent of the autumn crop areas, are now affected by drought. Output losses have already been caused on 17 million mu, and serious losses and even total crop failure are reported on 5 million mu. There is also great difficulty in finding drinking water in many places.

The meeting called on the province to get a thoroughly good grasp of fighting drought, protecting the autumn crops, and carrying out self-salvation through production. The cadres and masses should first have a correct understanding of this work. They should realize the gravity of the natural disasters this year, and guard against blindness and carelessness, and also avoid taking an exaggerated view of the disasters and becoming pessimistic and depressed. The leading cadres at all levels must attach importance to the disaster.

Vice Governors Bai Qingcai and Guo Yuhuai chaired the meeting.

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## HEILONGJIANG SOWN AREAS AFFLICTED BY FLOODS

SK070006 Harbin Heilongjiang Provincial Service in Mandarin 2100 GMT 5 Aug 87

[Text] Because of concentrated rainfall, 2,120 villages in 342 townships and towns in 55 counties and cities of the province's Mudanjiang, Qiqihar, and Harbin cities and Songhuajiang and Suihua Prefectures have met with floods and waterlogging since mid-July.

As of 28 July, a total of 11.422 million mu of sown areas in the province were hit by floods and waterlogging, accounting for 8.5 percent of the total. Among these areas, 2.49 million mu were 50-80 percent afflicted and on 1.33 million mu there was no possibility of producing crops. Meanwhile, 30,471 houses collapsed or became dangerous; and many roads, bridges, culverts, communications facilities, and the masses' diversified production were damaged in varying degrees.

Recently, Halun, Wangkui, Mingshui, and 16 other counties were once again hit by hailstones, afflicting 4.2 million mu of farmland throughout the province. From the night of 3 August to the early morning of 4 August, Lindsian, Longjiang, Baiquan, Yian, Nehe, Keshan, Kedong, and Tailai counties were hit by hailstones in varying degrees, afflicting 580,000 mu of land. The most serious losses were experienced in Lindian, Longjiang and Baiqua counties over more than 100,000 mu. The hailstones this time broke with tremendous force, thus leaving 194,800 mu with unharvestable crops.

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## HUBEI SUMMER GRAIN ACHIEVEMENTS, PROBLEMS

HK090241 Wuhan Hubei Provincial Service in Mandarin 0900 GMT 8 Aug 87

[Station Commentary: "Have a Clear View of the Strategic Idea and Persist in Carrying Out an Offensive for Several Years"]

[Excerpts] Hubei summer harvest was relatively good this year. Estimated summer grain output is 5 billion kg, an increase of 350 million kg over last year, representing an 8 percent increase. Eight of the province's 12 main summer grain-growing prefectures and cities raised output. Average yield of the province's 20.21 million mu of wheat exceeded 200 kg, thereby reaching a medium output level in the country. The summer oil harvest was also better than expected, with total output estimated at 9.4 million dan, the second best ever recorded. It is hoped that the increase in the summer grain harvest will amount to 60 percent of the province's target for increased grain output for the whole year.

We cannot neglect the fact that imbalances between different areas in summer grain production increased this year. Last year, the difference between the highest and lowest yields in different counties was 219 kg; this year it expanded to 251 kg. What yields in 52 counties and cities remain low. This includes 29 counties and cities where output was lower than last year. If we fail to change this situation, achieving the goal of having summer grain shoulder a heavy burden in the grain output for the seventh 5-year plan will be just empty talk.

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## JILIN TO DEVELOP GRAIN PRODUCTION AREAS

SK110106 Shenyang DONGBEI JINGJIBAO in Chinese No 170, 25 Jul 87

[Text] "We should increase grain output, invigorate animal husbandry, energetically develop industry and commerce, conduct comprehensive management, and strive to make counties and the people prosperous in order to build the grain production area in central Jilin Province into big agricultural counties, strong industrial counties, and rich financial counties in a relatively short period of time." This is a strategic ideology for economic development raised at the meeting recently held by the provincial party committee and the provincial government in the grain production area in central Jilin Province.

In central Jilin Province, which embraces 13 counties, the total grain output accounts for 70 percent of the province's total, the marketed commodity grain accounts for 80 percent, and the grain transferred to outside places accounts for more than 90 percent, thus making positive contributions to the state. However, in this grain production area as a whole, the single-product economic structure has not yet changed thoroughly; the economic development rate is still lower than the average level of the province; the financial revenues are not high; and the peasants' income is in a fluctuated condition. Regarding this, the meeting urged great efforts to change from the linking-up of the cropping, breeding, and processing industries, with emphasis on the cropping industry, to the coordinated development of the cropping, breeding, and processing industries; change from the mono-utilization of the cultivated areas to the comprehensive exploitation of all available natural resources; and change from the nonrenewable utilization of agricultural resources to the multiple utilization, which will increase the value. The specific ways to attain this goal are: First, guided by markets, we should open up channels for developing the commodity economy, and establish and perfect the market-technology-raw materials and export-oriented economic structure. Second, with able persons as vanguards, we should mobilize thousands upon thousands of households to develop the commodity production and to form enterprise groups with a certain scale. Third, carried by the "leading enterprises," we should promote the development of base areas and small enterprises, link up the development of the primary, secondary, and tertiary industries, develop systematized developmental items, and form a stable supply and marketing channel with a certain commodity production scale.

The provincial party committee and the provincial government also stressed the necessity of raising the socialized service level and the development of the commodity production. Leading comrades at all levels should break with the traditional work method of centering on agriculture; and should meet the demand of the comprehensive development of the commodity economy in terms of the distribution of the leading personnel, the setup of the cadres ranks, and the criterion for evaluating work performance.

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CSO: 4006/879

## HUNAN URGES IMPROVED TENDING OF LATE RICE

HK120243 Changsha Hunan Provincial Service in Mandarin 0000 GMT 12 Aug 87

[Excerpts] The provincial government issued a circular yesterday calling on leaders at all levels to grasp the tending of the late rice crop as the current most urgent task and do a thoroughly good job of it.

The circular said that the province has now transplanted 28 million mu of late rice, 80 percent of which is hybrid rice. A good foundation has been laid for a bumper harvest. However, the transplanting season was delayed, there is a shortage of chemical fertilizer and pesticides, and factors such as drought and insect pests threaten late rice production to a serious degree in places. The key to striving for a bumper harvest of late rice therefore lies in stepping up tending of the crop.

The circular called on the government at all levels to organize the forces of all sectors to fight in concert and provide high-quality service in the effort to reap a bumper harvest of late rice.

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CSO: 4006/879

## PRELIMINARY REPORT ON STAMICIDAL EFFECTS OF WL84811 ON WHEAT

Xi'an SHAANXI NONGYE KEJI [SHAANXI JOURNAL OF AGRICULTURAL SCIENCES] in Chinese No 3, 25 May 87 pp 16-17

[Article by the Department of Agronomy, Xibei Agricultural College]

[Abstract] Chemical stamicide is one of the principle measures used in wheat heterosis. Xibei Agricultural College conducted trials using the stamicide WL84811 and additive Tween 20. Results were assessed for five different doses at five different spraying times. Except for spraying No II, which was followed by rain, the in-bag, self-fruited ratio was found to be over 5 percent at dosages of 600g/ha, but less than 5 percent and progressively lower at dosages of 800, 1,000, 1,200, and 1,400g/ha. When WL84811 was mixed with the additive Tween 20, stamidal results were universally excellent, with no significant differences between dosages. The average ratio of natural allogamous fruiting (except for spraying No II) was rather low at all dosages. The ratio of artificial, in-bag allogamous fruiting declined progressively as dosage increased, the decline being most notable at 1,400g/ha. The figures (including high-dosage trials of up to 10,000g/ha) indicate that WL84811 may have a certain effect on pistils, but that the effect is not serious and can be eliminated by selecting the appropriate dosage and spraying time. Comparison with etephon showed that WL84811 has better stamidal results, longer stamidal currency, and fewer side effects on plant growth.

12510

CSO: 4011/42



# HE DONGCHANG ANALYZES PROBLEMS IN EDUCATION WORK

HK220458 Beijing BAN YUE TAN in Chinese No 10, 25 May 87 pp 9-11

[Article by He Dongchang, vice-minister of the State Education Commission:  
"Four Problems We Should Address in Current Education Work"]

[Excerpts] Proceeding from reality and practically formulating development plans for education, deepening educational reform and cultivating talented people to meet the needs of socialist construction, vigorously upgrading educational quality to make the students meet the prescribed requirements, developing the spirit of thrift and hard work in running schools and increasing the utilization rate of educational funds--these are the four problems we should pay attention to in current education work.

## 1. Developing Education According to Local Conditions

The situation in China is very complicated, with imbalanced economic and cultural development in different areas. We must develop education according to local conditions and in order of priority. Drawing comparisons in a simple way and copying others mechanically is often harmful. We must proceed from the actual needs of local economic and social development, give full consideration to economic strength and teachers' conditions, and scientifically formulate the scale, structure, distribution, and development pace of the educational cause. At present, the scale for cultivating secondary technical school students is relatively small compared with that for cultivating college students. As different areas have different economic structures, we cannot simply compare the number of college students of every 10,000 people in different areas. The state must actively support remote, border, minority nationality, and other poor areas. However, in the final analysis, the gap in education between different areas can only be gradually narrowed along with their own economic development. The assistance given by the central leadership is only supplementary. Therefore, all areas must formulate educational plans according to local conditions. Only thus can education serve better all causes focusing on economic construction. Economic take-off will in turn promote educational development.

## 2. Education Must Serve Economic Exploitation and Social Development

As only a handful of secondary school graduates can enter colleges, universities, and secondary technical schools, secondary education in all areas must

serve economic exploitation and social development in their own prefectures and counties. Blindly seeking a high percentage of graduates who can enter schools at higher grades regardless of overall development of the students will cause many corrupt practices. This indicates that our education work is divorced from practice and from the orientation of serving socialist construction. This problem has not yet been properly solved, one of the main causes being the pressure of habitual ideas in society. In the future, we must adopt measures, straighten out our ideas on running schools, gradually set up a supervisory system in middle and primary school, establish criteria for assessing the quality of education, reform entrance examination methods of schools of all levels, readjust the contents and quantity of curricula, and improve the teaching and learning of labor and labor technology courses to ease pressure on schools and students caused by the percentage of students entering schools at higher levels.

The standard and level at which colleges and universities cultivate talented people must "meet" social needs. Science and arts departments in colleges and universities must train most students into qualified personnel engaged in various practical work badly needed by society. Engineering, agriculture, medical science departments, and teachers colleges and universities must also pay attention to overcoming the phenomenon of being divorced from society's practical needs. In enrolling graduate students, we must not only pay attention to whether there are qualified teachers, but also, and most importantly, to whether there are social needs. In recent years, some colleges and universities have been keen on seeking a high standard and a high level, but have weakened the teaching of undergraduate and tertiary courses. We are now adopting some measures to rectify this situation. We must improve the work of sending people to study abroad according to the principle of "sending students according to practical needs, ensuring quality, and learning for the purpose of application."

In developing the educational cause, we must pay attention not only to increasing quantity, but also to upgrading the quality of our education. The building of socialist material and spiritual civilization demands that the students cultivated by our schools develop morally, intellectually, physically, and aesthetically; that we pay appropriate attention to education in labor and labor technology; and that they become socialist citizens with lofty ideals, moral integrity, academic accomplishments, and who observe discipline, and qualified personnel for construction who adhere to the socialist orientation. A striking problem at present is that bourgeois liberalization has invaded colleges and universities to different extents. To deal with this, we have made arrangements according to the decision of the CPC Central Committee and the State Council. We must conduct positive education on teachers and cadres in schools of all kinds and on college students in upholding the four cardinal principles and opposing bourgeois liberalization so that they can distinguish between right and wrong on the fundamental political principle and political orientation. College and middle school students must also study the NPC Standing Committee's "Decision on Strengthening Legal Education and Safeguarding Stability and Unity." All schools must earnestly strengthen ideological and political work and improve contents and methods of ideological and political education.

#### 4. Advocating Running Schools Through Arduous Efforts

At present, we must also vigorously advocate and develop the spirit of running schools in thrift and through arduous efforts, and properly manage and use limited educational funds. We must pay attention to reducing expenses, oppose extravagance and waste, and put an end to misappropriation of education funds. This concerns not only the saving of material wealth, but also the mental outlook of the contingent of teachers and students' educational environments. Fostering a style of running schools in thrift and through arduous efforts is always a fine tradition of our country's socialist education, and also an aspect of socialist spiritual civilization.

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CS0: 4005/795

## BRIEFS

EDUCATION DELEGATION ENDS U.S. VISIT--New York, 14 Jun (XINHUA)--A Chinese education delegation headed by He Dongchang, vice minister of the State Education Commission, concluded its official visit to the United States today. It will leave New York for home on 18 June. At the invitation of the United States Information Agency [USIA], the Chinese education delegation arrived in Washington on 2 June for its visit to the United States. During its stay, the delegation held talks with the USIA delegation. The two sides reached a unanimous understanding [yi zhi di Jian jie 0001 5268 4104 6015 6043] on the United States implementing the Sino-U.S. education exchange program in accordance with its laws and ensuring that Chinese students will return home for work after completing their studies. [Excerpt] [Beijing XINHUA Domestic Service in Chinese 0147 GMT 15 Jun 87 OW]

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BRIEFS

XINJIANG HOSPITAL PRESENTED TO CIVILIANS--On 31 July in Hotan, Xinjiang, Xinjiang Military District Hospital No 19 was removed from the military establishment and ceremoniously turned over to the minorities living in southern Xinjiang. The hospital was established 16 years ago. [Excerpts] [Beijing JIEFANGJUN BAO in Chinese 7 Aug 87 p 4]

CHENGDU CADRES RETURN FROM TIBET--Thirty organizational cadres of the Chengdu Military Region spent more than 3 months with front line companies in Tibet and returned to Chengdu on 5 August. This was the first group of Chengdu MR cadres sent to the Tibetan border on rotation in the last 20 years. These comrades increased their adaptability and actively developed their work at companies and outposts located above 4,000 meters. [Excerpts] [Beijing JIEFANGJUN BAO in Chinese 6 Aug 87 p 1]

AUDIT WORK CONTINUES--Military Commission Audit Bureau Deputy Bureau Chief Ma Yingxian [7456 5391 6343] said in an interview on 23 July that in the last half year of audit work, violations of financial regulations have clearly decreased. There have been 1,368 organizations (or projects) audited so far, revealing more than 34 million yuan of illegally used funds, 6.9 million of which must be turned over to financial departments. [Excerpts] [Beijing JIEFANGJUN BAO in Chinese 5 Aug 87 p 1]

AIR FORCE REGIMENTS RECEIVES F-8 FIGHTERS--The first batch of F-8 fighters has been deployed with a certain aviation regiment whose F-6s were directly replaced with the F-8s. Pilots in this regiment were faced with a new fighter plane which was imperfect in its flight theory, lacked flight guidelines, and did not have a matching trainer. Focusing on the complex equipment and high degree of automation, they stepped up training, doing simulated flight exercises during the day and silently studying the cockpit layout at night. Through these efforts they opened a new path in F-8 training efforts. This regiment has already completed topics such as low-level formations, complexities of mid- and high-altitude flight, special skills, supersonic interception, ground targets, and air combat. [Excerpts] [Beijing JIEFANGJUN BAO in Chinese 4 Aug 87 p 4]

SUBMARINE ESCAPE TESTS CONDUCTED--The Naval Medical Science Research Institute and the South Sea Fleet cooperated in studying new techniques of rapid ascent from submarines to escape danger. Successful tests were performed in a chamber simulating rapid ascent from a depth of 100 meters, and on this basis personnel wearing diving gear made successful actual ascents on 28 April from depths of 25 and 50 meters. [Summary] [Beijing JIEFANGJUN BAO in Chinese 24 May 87 p 1]

122MM SP HOWITZER--The 122mm self propelled howitzer has a combat weight of 15.4 tons, a crew of 2, carries 5 passengers, has a maximum speed of 56 kph, maximum firing range of 11,800 meters, a direct fire range of 600 meters, and a radio communications range of 16km. It accompanies tanks in combat, lending fire support to annihilate the enemy effective strength, suppress enemy firepower, destroy field fortifications and permanent fire emplacements, and attack enemy armor when needed. It is very mobile, has good protection, and is very accurate. [Photo captions] 1) Exterior of the 122mm SP Howitzer. 2) It has strong mobility and a maximum speed of 56 kph. 3) It can swiftly shift from march to combat mode. 4) It is easy for the layer to operate, and the field of fire is greater than a towed piece of artillery. 5) The gunner can direct fire from atop the vehicle and then quickly change position. 6) While on the march, the crew and passengers can all fit inside the vehicle, offering rather good protection against enemy bullets, artillery shells, and nuclear or chemical weapons. 7) Multiple pieces firing a salvo increases the suppression area and firepower might. [Text] [Beijing BINGQI ZHISHI [ORDNANCE KNOWLEDGE] in Chinese No 4, 15 Jul 87 p 33]

QINGHAI ARMY HOSPITALS--Xining report: Ground force Hospitals 25, 27, and 10 of a certain unit stationed at the foot of the Qilian Shan have taken care of Red Army veterans in the Gansu-Qinghai area for the last 8 years. [Summary] [Xining QINGHAI RIBAO in Chinese 6 Jul 87 p 1]

CSO: 40050979

LIAOWANG VIEWS MARTIAL LAW, NATIONAL SECURITY LAW ON TAIWAN

New Situation on Taiwan

HongKong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 30, 27 July 87  
p 21

[Article by Yue Sheng [1471 3932]: "Passage of the State Security Law and the Political Situation on Taiwan Following the Lifting of Martial Law"]

[Text] The Taiwan Government announced on 14 July that the "State Security Law for the Period of Mobilization for the Suppression of Rebellion" will come into force on the 15th in the territory of Taiwan. This will end the rule of the "Emergency Decree," which the Kuomintang [KMT] authorities had enforced on Taiwan for 38 years. As expressed by official media on Taiwan, Taiwan will as a consequence "enter the resplendent, enlightened spring of democratic government." How much magic power can one "Security Law" exercise, and can it really bring peace and harmony to Taiwan? The key point on which everyone's attention is focused is of course the direction that the political situation on Taiwan will take, now that the security law has been passed.

Public opinion on the island has compared the passing of the security law with a "difficult childbirth." This is a very appropriate comparison. All through the 3 months of the law's "difficult childbirth," it indeed underwent many frustrating twists and turns, which, in turn, caused much turbulence in the island's political situation. Political wrangling and confrontations that took place on the island during the process of formulating the security law were of an intensity rarely experienced in recent years. Taiwan's Legislative Yuan began on 9 March to deliberate the draft of the security law. Altogether they held 13 joint sessions and heard 380 statements by various speakers. During this whole process there were hot disputes inside the Legislative Yuan and protests, even violent clashes, outside the Legislative Yuan. There was an uninterrupted series of political disputes.

As evident from the entire way in which the deliberations on the security law were conducted, the policy adopted by the ruling party, the KMT, was one of "full discussion, controlling the pace of progress, yielding on technicalities, and standing firm on fundamental standpoints." The opposing non-KMT forces, on the other hand, adopted as countermeasures first a policy

of "keep hammering at the opponent without letup, contest every inch of ground until final victory," and finally a policy of "continue sit-down protests and issuing solemn statements." Because of this political confrontation and also critical opinions within the Legislative Yuan, 7 out of the original 10 articles of the original draft were to varying degrees amended. When the final draft was still not accepted by the delegates of the opposition party, the KMT tried to avoid more hitches from further delays and cut the Gordian knot by forcing passage of the security law. All this occurred in connection with deliberations on the security law, right in the midst of "democracy" and "harmony" which the Taiwan authorities declared were currently prevailing.

The political "whirlwind" that happened during deliberations on the security law was characterized by the following phenomena: It brought to the surface and intensified all political contradictions on the island. The core of all contradictions is the struggle between the KMT and the "tangwai," one side wanting to impose restraints and the other fighting against these restraints. Neither party will abandon its stand on this issue. Although the security law was passed, the mentioned contradictions have not been resolved, and passing the law does not mean that everything on the island will be peaceful and quiet. The political storm that started with the security law "whirlwind" will not easily die down.

First, the "political knot" left over in the present form of the security law itself and the series of machinations by the island authorities after its enforcement and lifting of martial law, are possibly foreshadowing further turbulence in the political scene on the island. Official quarters on Taiwan maintain that the essence of the security law is contained in its Article 3 [as published], namely in three principles expressed as: "No person may violate the Constitution or advocate communism or the separation of national territory in the exercise of the people's freedoms of assembly and association." These are the fundamental prerequisites that official circles on Taiwan depend on in the new order they intend to establish. The name of the security law is, moreover, preceded by the term "mobilization for the suppression of rebellion," but since Taiwan has already entered "a new historical era" and is about to "stride the path of democratic government," what is there still to "mobilize" and against what "rebellion"? This is something worth pondering. It means that after lifting of martial law, the authorities on Taiwan will still be empowered, on the pretext of "anticommunism" and "suppression of rebellion," to restrict the freedom of assembly and of association of the people on the island. However, the present authorities on Taiwan will surely not have forgotten what happened on the mainland 40 years ago when the KMT "suppressed rebellion" with the result that the more they "suppressed" the more "rebellion" there was. Furthermore, Article 9 of the Security Law prescribes that in cases where persons not in active military service have been tried by military courts and sentences have become final during the time the emergency decree had been in effect, no appeals or complaints shall be allowed. By its very wording, this article became a central issue most heatedly fought over during the deliberations on the security law. According to statistics, more than 8,000 persons not in active military service have been sentenced by military courts during the time of the emergency decree. Because no appropriate solution of the problem is provided by the security law, public opinion on the island believes the Taiwan



authorities should correct "this legislative scar left by the security law" with "appropriate administrative measures." It indicates that the above-mentioned "political knots" of the security law will have a serious impact on the future political situation on the island.

The ruling KMT has already made it clearly known that it will not yield in any way in the matter of Articles 2 and 9. There is therefore now no way to really tell in definite terms whether the KMT will adopt a more tolerant attitude toward political resistance that may occur on the island after the lifting of martial law. On the contrary, various indications point to the fact that the KMT seems unwilling to allow a breathing spell merely because the security law has now been passed. Chiang Chingguo has already said that "we must not lower our guard where state security is concerned," and must, furthermore, show "special concern" for the scope of assemblies and demonstrations after lifting of martial law. After the 12 June incident and the demand--unfulfilled--by members of the Democratic Progressive Party to see Chiang Chingguo, relevant authorities of the KMT decided to amend the criminal code, adding what they call "vilification of the head of state" as a crime subject to public indictment, and to "increase punishment for persons who instigate disturbances among the people." All this indicates that the KMT has no intention of showing greater tolerance once martial law has been lifted. This will certainly have an impact on Taiwan's political stability.

Second, as to the strength of the "tangwai," the series of actions against passage of the security law initiated by them throughout all these recent months have finally ended in failure as the law has after all been passed. But that does not mean at all that they will from now on stop all their activities. According to reports, the "tangwai" opposition force is now organizing a "movement for the reform of the National Assembly." They maintain that the "lifetime delegates" of the KMT have no further representative character. And we ask further: Will there be no more political confrontations between the party in power and the opposition during the imminent deliberations on the "Law on Assemblies and Demonstrations," "Law on People's Organizations," and the "Program for the Replenishment of Delegates to the National Assembly"? Will this not have an impact on the situation on the island? This is indeed something that nobody can guarantee.

Third, recently, there have been frequent activities by other political organizations on Taiwan, introducing new variables into the complex politics of the island. Because of recent clashes between the "Anticommunist Patriotic Front" and "tangwai" forces, people are concerned whether similar incidents could now become a trend all over the island and initiate a vicious circle. As revealed in an English-language weekly published in Hong Kong, the "Patriotic Front," as well as another group, the "All-People's Patriotic Society," are subsidized by KMT conservatives and receiving their military and intelligence support, because these people do not like Chiang Chingguo's current policy. If this news is correct, recent activities of the "Patriotic Front" are indeed revealing the trend of internal contradictions within the KMT. Hsu Ch'engtsung [6079 2110 1350], a member of the "Patriotic Front" and also a member of the KMT, indicated publicly his dissatisfaction with "certain methods of the party," and is said to have expressed his feeling that the high hopes set on the party are not being fulfilled. Relevant KMT circles are now

considering punishing Xu for violating party discipline. Be that as it may, Hsu Ch'engtsung still maintains that the "Patriotic Front" will "uphold" its views and methods as the situation will develop, and will propose adequate countermeasures. It indicates that the "Patriotic Front" and other such organizations may possibly play a certain role in the future political developments on the island.

Considering all the above-mentioned factors, we may predict that after lifting martial law, the situation on the island will probably not quiet down. The key to this issue is whether lifting of martial law by Taiwan's authorities, although conforming to a certain extent to the political trend on the island, can at the same time resolve some of the "political knots" that have not yet been resolved or that they have been unwilling to resolve.

#### Security Law, Lifting Martial Law

Hong Kong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 31, 3 Aug 87 p 20

[Article by Jiang Nong [3068 3426]: "An Initial Analysis of the Lifting of Martial Law and Promulgation of the State Security Law"]

[Text] On 1 July, the Taiwan authorities published the State Security Law, and on 15 July proclaimed abrogation of the Emergency Decree. All public media of the Taiwan authorities have made a great affair of these events, declaring them to constitute great progress toward "democratic constitutional government," "milestones in political reform," etc., with the purpose of painting an image of "enlightenment." But most unbiased opinions point out that it is merely a change in form but not in essence. Some scholars maintain that lifting the emergency is a declaration of a state of nonbelligerency, but that after lifting the emergency there still exists an emergency condition, not at all a transition to an era of "democratic constitutional government," and that the State Security Law is nothing else but an extraordinary measure for the "transitional period" during which the country is still not yet unified.

The ideas that guided the KMT in formulating the security law were governed by three principles, namely those in its Article 2: "No person may violate the Constitution or advocate communism or the separation of national territory in the exercise of the people's freedom of assembly and association." It is said that these three principles will also be guidelines for the intended "Law on People's Organizations," "Law on Assembly and Demonstrations," and all other future political legislation. Proponents of the Taiwan democratic movement on Taiwan and abroad are of course opposed to the security law and particularly opposed to the said three principles.

Taiwan's security law violates not only the general principles of law but also the aspirations of the people.

The name of the law is "State Security Law for the Period of Mobilization for the Suppression of Rebellion." Taiwan is not a state, and this formulation is inconsistent with the talk of the Taiwan authorities of recognizing that there is only one China. Since they are "lifting the emergency" and entering a

state of peace, what need is there to "mobilize," and whose "rebellion" are they to "suppress"? In 1946, the KMT at Nanjing issued the decree of mobilization for the suppression of rebellion and drove millions of troops to attack the liberated areas under the leadership of the CPC. As a result, they lost the support of the people on the mainland and had to retreat to Taiwan. In 1949, the KMT on Taiwan issued the Emergency Decree, which was in force for 38 years, a record as the longest emergency of all time in any country. Under the rule of the emergency decree, thousands of Taiwanese were murdered and incarcerated for long periods of time, or driven to take refuge abroad or to join the revolution and construction on the mainland. According to reports, 14,000 among the several hundred thousand Taiwanese compatriots in the United States are on Taiwan's list of "wanted criminals." The CPC adjusted its policy toward Taiwan since 1979, changing it from "liberation of Taiwan" to striving for peace talks and unification. Throughout the past 8 years that the CPC built up its strength and developed its productive forces, it also maintained this fundamental policy. Under these circumstances, does it mean, that by speaking of "mobilizing for the suppression of rebellion" the Taiwan authorities will order the people of Taiwan to attack the democratic movement of the people? In the present situation where native Taiwanese are the majority in Taiwan's military and civil government police and in its intelligence and security system, is that consistent with the general principles of law? Would it even be at all feasible?

Taiwan's security law and its enforcement regulations contain many provisions that run counter to the aspirations of the people.

Most people on the island believe that unification of the island with the mainland will finally happen some day. Their pressing demand is, furthermore, to establish the "three links" and to allow free travel between the two sides of the Taiwan Strait. In the three principles that the said law is following, what is after all the "constitution" that "must not be violated"? People do not recognize the "constitution," which has no place to exist together with China's "general legal system." Taiwan's security law also indicates that there has been no change in the rigid anticommunism maintained over the years by the KMT authorities. As to the prohibition to advocate a separation of territory, that is undoubtedly correct, but people will of course ask whether it is sufficient to merely use verbal criticism of such separation? Should criticism not also be directed against a policy and against actions that refuse peace talks and unification? Criticism should be leveled against both, urging the Taiwan authorities to go the way of placing state and nation above everything else, that alone can really ensure state security. In the articles that restrict entry into Taiwan, the security law designates persons who "are to be regarded as security risks," persons "denied entry pursuant to other laws," and persons who have left the mainland but have resided for less than 5 years in a foreign country or territory, as persons to be refused entry. These are unwarranted restraints on people on both sides of the Taiwan Strait who want to return to their native places, visit relatives, or travel as tourists, also restraints on efforts to establish the "three links"; the people very much resent these provisions.

Article 9 of the Security Law prevents rehabilitation in the many cases of unjust, false, and wrong convictions in past years. Article 9 prescribes: "In

criminal cases involving persons not in active military service which have been tried by military courts and for which sentences have become final, no appeal or protest may be lodged with any competent court." That means that no appeal or correction at all is allowed for sentences "during the emergency and within the emergency territory" even if they had been wrong. In cases where "criminal sentences have not been executed or are being executed," it is merely prescribed that they "shall be transferred to the competent prosecutor for prosecution under his direction;" they are still to be executed whether wrong or not. Retrial shall only be allowed "if grounds for retrial or extraordinary appeal exist," when "it shall be permissible to apply the provisions governing criminal procedure for persons not in active military service for whom procedure had not yet been completed and the provisions for retrials and extraordinary appeals." In other words, the Taiwan authorities have in the past treated many political cases as criminal cases and in future still want to have a chance to use some other kind of trick to achieve their goal of repressing the people: Article 1 says: "Matters for which the present law does not provide shall be governed by other relevant laws." This reveals that there is much latitude in the implementation of this law. The democratic rights of the people do not attain full guarantee.

It cannot be denied that the emergency decree has after all been lifted. This indicates that the Taiwan authorities acknowledge the existence of a state of nonbelligerency, that in form and method of handling political and social issues they are now paying attention to acting in harmony with the new situation, and that in future problems concerning Taiwan's security there is now after all a law to follow, and that Taiwan society has possibly taken one step forward toward rule of law. But let us only hope that in the application of the security law the principles of abiding by the general principles of law and of respecting the democratic rights of the people will be implemented.

This one step forward is the result of huge sacrifices and arduous struggle by many more Taiwanese. People believe that the Taiwanese will make good use of the present result to continue their struggle for all democratic rights that are due to them, that they will not only participate in decisions on major questions of Taiwan, but also actively participate in the cause of peace and unification of all of China.

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CSO: 4005/927

ARTICLE ON LI HUAN'S RISE TO SECRETARY GENERAL OF KMT

Hong Kong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese No 29, 20 Jul 87 p 24

[Article by Ling Li [0407 0536]: "What Were the Intentions in Promoting Li Huan to Secretary General of the Kuomintang"]

[Text] Li Huan [2621 3562], who was appointed secretary general of the Central Committee of the Kuomintang [KMT] to replace 78-year old Ma Shuli [7456 2885 4409], is said to be a man of the KMT's "enlightened faction." The appointment, announced on 1 July, was the personnel change in the higher echelon of the KMT that attracted most attention since the start of the year.

The post of general secretary with responsibility for overall planning and promoting party affairs ranks in the KMT only second to party chairman Chiang Chingguo. In his almost 30 years of government service, 70-year old Li Huan has created for himself the image of "forceful action." Newspapers and periodicals on Taiwan believe that Li Huan's appointment to secretary general of the KMT Central Committee indicates that "the ruling party steers toward an era of 'forceful action'."

Since establishment of the "opposition party," the Democratic Progressive Party [DPP], in the latter half of last year, the political situation on Taiwan has changed radically. The call for democracy on the island is rapidly growing louder, movements such as for "salvation through own strength," or for environmental protection, the labor movements, women's movements, and campus movements spring up with great frequency and are becoming a serious predicament for the KMT authorities. The dissatisfaction of the people with the authorities has also sharpened the contradictions within the KMT.

Faced with the dissatisfaction of the people with the authorities, members of the "enlightened faction" within the KMT have proposed to get on friendly terms with the "tangwai" and also to work energetically to rectify and eliminate various decadent practices within the KMT as well as factional strife between local governments, in order to raise the social status of the party and to present an image of excellence to the people. But the "diehard faction" believes that it is rather necessary to adopt an unyielding attitude toward all kinds of "salvation through their own strength" movements, especially toward democratic movements, and that there must be no concessions, but if necessary even repression.

However, Chiang Chingguo emphasized that Taiwan is now in a time of political change; the times are changing, the environment is changing, and trends are changing. In politics, the KMT authorities are faced with the trend toward greater democracy and more participation of local elements; in economics, they are faced with a trend toward independence and more international contacts. It is for these reasons that Chiang Chingguo adopted a series of "innovative" measures since last year's 3d Plenary Session of the 11th KMT Central Committee, also declared abrogation of the Emergency Decree, relaxed restrictions on discussing party affairs and on newspaper reporting, and accelerated the progress of democratization on the island, energetically striving to achieve conditions that will enable the KMT to continue its occupation of Taiwan.

Li Huan has all along followed Chiang Chingguo. As early as 1944, after graduating from the law department of Fudan University, he passed the entrance examination to the research department of the Central Party Cadres Training School, in which Chiang Chingguo was dean of studies. When the KMT moved to Taiwan in 1949, Li Huan became secretary general of the Reform Commission at KMT Central Headquarters, at the same time assisting Chiang Chingguo in establishing the "Chinese Youth Anticommunist Resist-Soviet Union Federation" (the precursor of the "Chinese Youth Anticommunist National Salvation Corps"), assuming in the National Salvation Corps the post of chief secretary.

Later, Li Huan held at various times the positions of director of the first section in the KMT Central Committee, chairman of the Taiwan Provincial KMT, chairman of the National Youth Commission, director of the National Salvation Corps, director of the Organizational Commission of the Central Committee, and director of the Revolutionary Pragmatism Research Institute.

In Li Huan's political career, founding of Taiwan Zhongshan University was a turning point, an event that brought him unanimous acclaim within and outside of the party, and furthermore brought him into the cabinet of the Taiwan authorities, by being appointed, in July 1984, minister of education.

According to public opinion on the Island of Taiwan, Li Huan gained Chiang Chingguo's full confidence and appreciation by having followed Chiang for several decades. Li Huan has a "deep understanding of all motives" in the various policies adopted by Chiang and has always displayed "unswerving loyalty" in the implementation of Chiang's policies.

Some observers, familiar with politics on the island, believe that Chiang Chingguo's intention in appointing Li Huan as KMT secretary general at this juncture is to smoothly execute his plans of succession. Chiang Chingguo hopes that Taiwan's future leadership system will be one of "collective leadership" and "larger participation of local elements," and Li Huan is the ideal choice for the execution of this policy.

Since 1952, Li Huan has served in leadership positions over long periods of time in the National Salvation Corps, in the KMT Organizational Commission, and in the Revolutionary Pragmatism Research Institute. All three departments had been KMT organs to train upcoming talents. There are several leading

figures on Taiwan's political stage whose origin is closely linked with Li Huan, for instance, Lien Zhan [6647 2069, vice president of the Executive Yuan, Wu Boxiong [0702 0130 7160], Minister of Interior, Shi Qiyang [2457 0796 2779], Minister of Justice, and Gao Minghui [7559 6900 6540], deputy chief secretary of the KMT Central Committee. Most of the incumbent directors of KMT affairs in the various counties and municipalities of Taiwan are also Li Huan's trusted associates, owing their education to his patronage.

In implementing Chiang Chingguo's policy of more participation by local elements, Li Huan is a firm enforcer. In his earlier positions, he employed on Chiang Chingguo's behalf many native Taiwanese. In his position as secretary general, Li Huan will therefore play an important role in controlling the native Taiwanese party members and cadres. At the same time, being a veteran KMT statesman, Li Huan will also be able to repress the negative effect of those opposing the policy of introducing more local elements.

It appears from the current state of Taiwan politics that Li Huan's close relations with native Taiwanese enhances the KMT's chances to achieve an "equilibrium of influence" with the DPP. This will raise in an important way the social status of the KMT as ruling party.

Some Taiwan experts point out that 1989 is an election year on Taiwan, when the governments at all levels, from village chiefs to county magistrates and city mayors, from people's delegates in villages, townships, and cities to senators of the Legislative Yuan, will have to be reelected. In 3 years, this will then be a big contest of strength between the DPP and the KMT. Judging by the current situation, the influence of the opposition forces must not be underestimated. Bringing in Li Huan, called the "minister of forceful action," as No 2 "muscle man" in the KMT Central Committee is of extreme significance to enhance the KMT's leadership strength and to improve the KMT's image among the people.

Some Western observers have pointed out: "Having Li Huan take the place of Ma Shuli must be regarded as affirming continuation of the current liberalization movement." Western politicians generally believe that Li Huan is more open minded in his thinking than the other high KMT officials.

The troika readied as successors to Chiang Chingguo, namely secretary general Li Huan, State Security Council chief secretary Chiang Weikuo [5592 4885 0948], and Executive Yuan president Yu Kuohwa [0205 0948 5478], already hold all of Taiwan's party, civil government, and military power in their hands, while Li Huan is in the position of "lead horse."

However, Taiwan's current situation can no more be compared with that of the past. Taiwan's economic development, under pressure from the United States to continuously raise the value of the Taiwan currency, is slowing down, and a latent economic crisis is looming on the island. The democratic movement will continuously grow on the island, while the political position of the KMT will gradually deteriorate. Moreover, the demand for the "three links" will grow increasingly loud, and there will be ever growing resentment among the people against the policy of the KMT authorities of "threefold refusal."

After he will have assumed the office of secretary general of the KMT, how effective will Li Huan's "forceful action" be under these circumstances?







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